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Participation of SMEs and women-owned businesses in the South African wine value chain

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Fair for All: Inclusive and sustainable gender transformative value chains

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The Centre for Competition, Regulation and Economic Development (CCRED) is an academic research centre housed in the School of Economics at the University of Johannesburg's College of Business and Economics. CCRED specialises in research, teaching and advisory services for government and non-governmental organisations on competition policy, industrial development and value chains in Southern and East Africa.

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1. Introduction

Small and medium-sized entrepreneurs (SMEs) and women-owned businesses are recognised as important contributors to South Africa's economic growth, employment, and structural transformation objectives. In South Africa, SMEs are estimated to account for around 98.5% of all businesses (in number terms), around 26% of jobs and almost 40% to Gross Domestic Product (GDP) (Rajagopaul, Magwentshu, and Kalidas, 2020). Other estimates suggest that SME contribution to jobs was even higher at between 50-60% of the country's work force (International Finance Corporation, 2020). 38% of SMEs in South Africa are women-owned (Rajagopaul, Magwentshu, and Kalidas, 2020).[1] While there is limited data on black-owned SMEs, black ownership of businesses has been low in South Africa historically, with estimates that it fell to under 30% in 2021.[2]

Despite the positive contributions of SMEs to the economy, and the importance of transformation for more inclusive businesses, diverse and systemic barriers to entry, exit and growth limit higher levels of participation in economic activities. This paper seeks to understand participation of SMEs and women-owned businesses (particularly black-owned businesses) in the South African wine industry. Key objectives of this study include assessing the nature of barriers to entry, exit and growth that SMEs and women-owned businesses face, the recourse they may have to overcome these barriers, and to better understand successful and failed entry experiences. The paper assesses key activities and investments/upgrading, access to markets and finance, industry and government support, standards, and requirements, and how all these shape outcomes and opportunities for inclusion. Dynamics applicable to SMEs generally also directly apply to women-owned SMEs, although certain challenges are more amplified for women-owned SMEs. We also limit our focus largely to the experiences of black-owned SMEs, although several challenges cut across different ownership demographics for SMEs.

The wine industry provides for an interesting case study to interrogate issues of inclusive development and upgrading. The industry is characterised by highly skewed ownership patterns resembling historical legacies of racialised inequalities. Ownership largely remains white male-dominated and this impacts on women's access to industry spaces (Sato, 2013). While progress is being made in transformation in the wine industry in SA, it has been at a slow pace,[3] with some momentum only seen in more recent years. Presently, less than 3% of sales are accounted for by black-owned brands (other estimates are less than 1,5% of sales) and 2.5 – 2.7% of area planted with grapes for wine is owned by historically disadvantaged persons (HDPs).[4] The proportion of women who own land is likely even lower than this. According to the wine industry's strategy around the late 2010s, the target was to transfer 20% of land and

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[1] While we do not have more recent reliable statistics, it is widely recognised that the Covid-19 pandemic has severely impacted SMEs and women-owned businesses in South Africa, and these contributions to the economy may be lower in 2023.

[2] https://www.bloomberg.com/news/articles/2022-07-31/black-ownership-of-south-african-businesses-falls-below-30?cmpid=socialflow-twitter-business#xj4y7vzkg, accessed on 28 March 2023.

[3] Interviews with SAW18, SAW1, SAW2, SAW3

[4] Interviews with SAW18; SAWS3

water rights into the hands of PDPs by 2025. This represents a large discrepancy as the industry is not close to this target presently. Government and industry efforts to include black SMEs into wine production and exports have been met with limited success as these historic ownership patterns persevere.

Black-owned SMEs in particular continue to face numerous barriers to establishing and growing their wine brands. In the more 'traditional' wine market, new entrants and young wineries generally struggle to make an impact, with the loyal customer bases preferring established brands (Mabaya, Ross, Shresta and Weiss, 2014). Their experiences point to a broader lack of access to resources (such as education, experience, or capital) that would alter their negotiating positions (Sato, 2013).

Broadly applying a 'barriers to entry' lens within global value chains (GVC) and competition economics frameworks and exploring these issues through extensive fieldwork interviews in the South African wine value chain, the paper addresses the following questions:

1. What is the role and key activities of SMEs and women-owned businesses in the wine value chain?
2. What are the barriers to entry and growth faced by SMEs and women-owned businesses, particularly black-owned players, in the wine value chain?
3. What are the implications for competition and industrial policy to improve SMEs and women-owned businesses' participation in, and benefit from, economic activities?

Understanding the nature and magnitude of barriers to entry, exit and growth faced by SMEs and women-owned businesses is critical in designing targeted policies that promote an inclusive and sustainable wine value chain in South Africa.

Drawing on in-depth interviews and short discussions with 33 stakeholders at different levels of the wine value chain as well as industry and other organisations, our preliminary observations show that there are interesting and encouraging trends of black SMEs and black women-owned winemakers making a mark in the industry (although still very small in relative and absolute terms). This is particularly observed through the export of high-quality wines (some of which are award-winning) with strong stories about the origin of the wine, the winemaker's heritage, and African culture. While there are also notable recent entrants in terms of black male winemakers, of the 67 black-owned wine brands in South Africa[5], 75% are women-owned.[6] Black women are therefore driving transformation in wine production in South Africa. This makes for an interesting case study to understand the challenges and successes of black women wine makers, as well as how to open greater opportunities going forward for other women-owned businesses (and SMEs more generally) in the wine value chain. The business models of entry and growth of these brands, including through virtual wineries and partnerships with stablished operations in the wine industry, reveal how they have at least partly been able to overcome

[5] See Appendix 1 which lists 62 of these.
[6] Interview with SAW18.

certain barriers to entry and participation. These findings are timely inputs into the Agriculture and Agro-processing Master Plan (AAMP) process. The AAMP highlights the wine value chain as one in which interventions are necessary to ensure greater inclusion of historically disadvantaged persons (HDPs). The study therefore provides valuable insights from extensive fieldwork that can inform Phase II of the AAMP which focuses on its operationalisation.

The rest of the paper is structured as follows. Section 2 discusses the concepts of power, governance and upgrading in value chains as these determine who participates in the wine value chain, on what terms and what upgrading is required to do so. We also highlight related competition economics principles of market power, buyer power and barriers to entry, which also affect entry and participation in the wine value chain. Section 3 describes the methodology we use. Section 4 sets out the industry structure and assesses the performance of the wine industry in terms of key indicators over time, providing an indication where there are opportunities for new entrants. Drawing from the engagements with wine industry participants, Sections 5 contributes to answering the research questions set out above. Section 6 concludes, reflecting on insights from the rich fieldwork and providing policy recommendations.

2. A brief discussion on the conceptual frameworks used

This study makes use of two closely related conceptual frameworks/fields - the global value chain (GVC) framework and competition economics principles - to address the research questions. As stated in the introduction, these frameworks provide tools to understand entry, growth and upgrading (or lack thereof) of SMEs and women-owned businesses in wine. We note that the objective of this research is not to contribute to the academic theoretical discourse in these areas. This study provides empirical insights on different concepts raised in these fields from the experiences of the South African wine industry.

The GVC framework is useful for tracing patterns of value creation as well as understanding the impact of power and governance across the full range of economic activities within an industry (Gereffi and Fernandez-Stark, 2011; 2016). The GVC literature focuses on two main concepts, that of governance and its impact on upgrading. Governance refers to power relationships that determine the allocation and flow of resources within a value chain while upgrading explores how firms can maintain or improve their positions within global value chains (Gereffi, 1994; Gereffi and Lee, 2014). Power in, and governance of, a value chain affects who enters at each level and how these players participate. In the wine industry as we show, power is often concentrated in the hands of large buyers such as retailers or supermarket chains domestically or in export markets; large importers or government-controlled monopoly buyers of wine (for instance, in some Scandinavian countries). These players impose standards and requirements on the supply chain which impacts on the investments needed by suppliers to upgrade to meet these. Upgrading refers to firms or groups of firms improving their competitive positions with domestic, regional, or global value chains such that they are able to improve their own value capture within the chain (Gereffi et al., 2001; Humphrey and Schmitz, 2002; Gibbon et al., 2008; Gereffi and Fernandez Stark, 2016). However, creating and capturing value need not mean moving to higher value goods or services (Ponte and Ewert, 2009), nor does upgrading necessarily result in improved economic returns (Pasquali et al., 2021a). Upgrading can also refer to improvements in process, managerial models, market access, time-to-market, packaging materials, and/or food safety standards (Ponte and Ewert, 2009). In wine, upgrading is needed to meet the environmental and social sustainability standards required by buyers and consumers, and to also reach the goals that some suppliers place on themselves (for instance, regenerative agricultural practices, worker-ownership schemes etc.).

Power can also be exercised through institutional actors and through organisations which shape requirements and practices (Bair, 2009, Pietrobelli and Rabellotti, 2011, Dallas, Ponte and Sturgeon, 2019; Mondliwa et al., 2020; Pasquali et al., 2021b). States and international organizations can further play key roles through policies, incentives, access to resources and regulations in shaping what value chains look like (Gereffi and Mayer, 2006; Horner, 2017; Horner and Alford, 2019; Mayer and Phillips, 2017; Park and Gachukia, 2021). The Agriculture and Agro-processing Master Plan (AAMP) in South Africa for instance should, through targeted interventions, directly impact participation of HDPs in agricultural value chains, including in wine. Government policies and regulations, in turn, can be influenced at different levels by interest groups which lobby and shape the agenda through forms of institutional and constitutive power that they hold (Dallas et al., 2019).

Understanding market power and buyer power through a competition economics lens is directly relevant to GVC concepts of governance and its impact on upgrading. Greater competition leads to higher economic efficiency through increased allocative, productive, and dynamic efficiencies resulting in lower prices and greater innovation. In South Africa, objectives of competition policy and the Competition Act of 1998 (as amended) go beyond simply just these economic efficiency considerations and place a strong emphasis on redistribution due to the racial imbalances created by the apartheid regime. Public interest considerations and the protection of SMEs and HDPs are some of the cornerstones of modern South African competition policy.[7]

Of relevance to this study, past CCRED research has shown that the exertion of buyer power by large, lead buyers in the value chain can squeeze the margins of suppliers who lack bargaining power (especially SMEs), including through the imposition of fees, various other costs, onerous terms and conditions and requirements. This research has been in the context of large supermarket chains exercising buyer power towards small suppliers (das Nair and Shedi, 2022; das Nair, 2021; das Nair and Landani, 2021; das Nair, 2020). Evidence of both the market power of large South African retail chains and their buyer power was ventilated in the Competition Commission of South Africa's Grocery Retail Market Inquiry (Bonakele, das Nair and Roberts, 2022), and new provisions to deal with the abuse of buyer power were recently introduced into the Competition Act.[8] The new provisions prohibit a dominant firm as a buyer in a designated sector to require from or impose unfair prices or trading conditions on SMEs or firms controlled or owned by historically disadvantaged persons (HDPs) in designated sectors of agroprocessing,

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[7] See the Competition Amendment Act of 2018: https://www.gov.za/sites/default/files/gcis_document/201902/competitionamendment-act18of2018.pdf
[8] https://www.compcom.co.za/buying-power/

grocery wholesale and retail, e-commerce and online services. When margins of suppliers are squeezed, they may not be able to make sufficient return to invest in upgrading in the various forms that the GVC literature puts forward, and their effective participation in value chains is curtailed. This affects competition in supplier markets in the longer term, contributing to rising concentration levels in food markets since it is often the larger suppliers who can meet requirements and who have a stronger bargaining position with large buyers (das Nair and Shedi, 2022).

Exertion of the market power of large sellers of inputs and services also affects availability and pricing to producers and manufacturers, potentially increasing their production costs. In South Africa, critical inputs into food value chains tend to be dominated by a few players in highly concentrated markets and there have been significant competition concerns as seen in the cases investigated by the Competition Commission. Market power exerted by intermediaries such as traders and merchants also affects entry and participation (Competition Commission South Africa, 2021). In the wine industry, there are certain input and trader markets that are highly concentrated and for which wine producer have no alternatives that they can turn to. We discuss the implications of this in Section 5.3.

More generally, barriers to entry and exit are important conditions for competition to prevail (Banda et al. 2015; Dunne et al., 2013). Structural barriers, as the name suggests, arise due to the inherent structural characteristics of a market, and can include natural barriers such as physical location, sunk costs (advertising, building a brand etc.), switching costs, economies of scale, access to capital and network effects (Lutz et al., 2010; Bain 1956). Strategic barriers on the other hand are those that are created by the behaviour of incumbent firms with market power, and these serve to limit the entry and participation of rivals in markets. These may not be immediately obvious to new entrant attempting to participate or grow within a market. Incumbent firms can employ a wide range of strategies including aggressive post-entry behaviour to deter entry (such as over investment in capacity), raising rivals' costs (such as making key inputs more expensive, or foreclosing rivals directly or constructively) and reducing rivals' revenues (Banda et al., 2015; Church and Ware, 2000). Such conduct need not only affect participation at the same level of the value chain as the incumbent, but as highlighted above, if it takes the form of buyer power, it can affect market access and impact on the profitability of sellers upstream.

3. Methodology

This study uses a combination of primary data from interviews, discussions and seminars, as well as secondary data from industry bodies and online sources to understand the participation of SMEs and women-owned businesses in the South African wine industry. The research questions stated in the introduction require an in-depth understanding of the lived experiences of SMEs and women-owned businesses in the wine value chain, with our focus being on the black-owned firms at the wine production level in which agro-processing activities are concentrated. We emphasize that we do not focus on women workers or labourers in wine farms at the upstream growing level of the value chain in this study. While we have undertaken interviews that highlight the challenges (and opportunities) at this level of the value chain, we report on this only for wider context and for implications it may have on the implementation of the AAMP, and not as a thorough evaluation of women on farms and their working and living conditions. Analysis at the worker level of the value chain requires a different lens and framework to be used which is outside the scope of this study.

A case study approach is largely followed in this study which allows for the contextual evaluation of the research questions. This is important, particularly in the wine value chain, where context and history play an important role in understanding development trajectories and participation dynamics (Flyvbjerg, 2006). Data was collected through short discussions and through longer, in-depth interviews using semi-structured questionnaires. Themes covered included history of the company, products produced, key markets, main challenges faced, opportunities available, investments, innovation and upgrading undertaken from economic, social, and environmental perspectives, and future development trajectories.

To identify black women-owned wine brands, we initially conducted an in-depth interview and site visit with the South Africa Wine Industry Transformation Unit (SAWITU)[9] in Stellenbosch, Western Cape, in March 2022. SAWITU is a non-profit company set up for, among other objectives, to '*increase representation of black people, with a specific focus on black women, at management level in wine cellars, wine businesses and industry organisations through industry programmes for human development in and for the wine industry*'[10] [own emphasis]. SAWITU provides support programmes to assist wine entrepreneurs in various aspects of their business, such as legal, regulatory, operational and market access. SAWITU also assists with enterprise development programmes to assisting entrepreneurs scale their businesses through accessing funding and infrastructure, as well as capacity building.[11] Some of this support is provided through the Wine Arc, in which SAWITU is located. The Wine Arc serves as a 'brand home' for black wine brands, many of which are women-owned.[12] SAWITU was therefore well-placed to not only assist in identifying black women-owned businesses in the wine industry, but to also provide overarching insights on the challenges and opportunities black SMEs face.

In addition to the interview with SAWITU, we engaged in two different information gathering methods through fieldwork with relevant stakeholders. All fieldwork was conducted in the winegrowing areas in the Western Cape (Table 1) as this is a major geographic growing unit.[13]

The first method was through our attendance of Cape Wine 2022, the wine industry's main international trade show, held in Cape Town in October 2022. In this trade show, women-owned wine brands (including black women owned brands) exhibited their products, and some presented their stories in seminars/panel discussions. This provided a unique opportunity to meet with numerous wine industry participants under one roof over an intensive three-day

[9] SAWITU's founding members include the National Agricultural Marketing Council (NAMC), Vinpro and SA Liquor Brand Owners Association (SALBA)
[10] https://witu.co.za/
[11] https://witu.co.za/support-programmes/
[12] https://thewinearc.co.za/
[13] https://www.wosa.co.za/The-Industry/Winegrowing-Areas/Winelands-of-South-Africa/

period, and to gather data on some of their experiences, as well as to compare these experiences with strong brands who have historically dominated the wine industry.

The second method of data collection was through conversations and in-depth interviews with stakeholders, both prior to Cape Wine 2022 (in March 2022) and following introductions made during Cape Wine 2022. Even though our focus in this project is on wine producers, we targeted interviews across a wide range of stakeholders in the wine value chain, including industry associations, distributors, wine estates, cellars, CSOs, NGOs, standards organisations (environmental and social) and retailers. This is important given our value chain approach in understanding opportunities and bottlenecks to upgrading for black SMEs which may be because of dynamics and requirements at different levels of the value chain.

The relevant interviews drawn from in this project are provided in Table 1 below, coded as SAW (number).[14]

Table 1: Discussions and Interviews

	Interview code	Function	Location
1	SAW1; SAW2	Industry association	Stellenbosch
2	SAW3	Industry association	Stellenbosch
3	SAW5	Wine producer/cooperative	Paarl
4	SAW6	Wine négociant /trader / merchant	Stellenbosch
5	SAW10	NGO	Stellenbosch
6	SAW11	Industry association	Mitchell's Plain, Cape Town
7	SAW13; SAW50	Private cellar	Stellenbosch
8	SAW14	Training Institution	Gauteng
9	SAW15	NGO	Stellenbosch
10	SAW18	Industry association	Paarl
11	SAW21	Research institution	Paarl
12	SAW22	Wholesaler	Wellington
13	SAW31	Estate	Franschhoek
14	SAW32	Government agency	Cape Town
15	SAW33	Sustainability certification	Cape Town
16	SAW34	Retailer	Cape Town
17	SAW44	NGO and Fair-4-All partner	Cape Town
18	SAW45	Black woman-owned winemaker	Cape Town (Cape Wine 2022)
19	SAW46	Black woman-owned winemaker and estate	Cape Town (Cape Wine 2022)
20	SAW47	Black majority owned company	Cape Town (Cape Wine 2022)
21	SAW51	Private Cellar	Stellenbosch
22	SAW53	BEE partner + producer cellar	Darling and Cape Town (Cape Wine 2022)

[14] We draw this coding from another project that we are working on concurrently, outputs of which are still to be published.

23	SAW54	Worker owned company	Stellenbosch and Cape Town (Cape Wine 2022)
24	SAW55	Black woman-owned winemaker	Franschhoek and Cape Town (Cape Wine 2022)
25	SAW68	Black man-owned winemaker	Online and Cape Town (Cape Wine 2022)
26	SAW72	Wholesaler	Stellenbosch
27	SAW81	Estate	Stellenbosch
28	SAW82	Farm/producer	Stellenbosch
29	SAWS3	Black woman-owned winemaker	Cape Town (Cape Wine 2022)
30	SAWS3	Black man-owned winemaker	Cape Town (Cape Wine 2022)
31	SAWS3	Black man-owned winemaker	Cape Town (Cape Wine 2022)
32	SAW19 and 49	Producer wholesaler; estate	Stellenbosch
33	SAW67	Estate	Hemel-en-Aarde Valley

Source: Authors' compilation

It is important to stress that the above sample of interviewees is not intended to be representative of the entire industry, of all SMEs, of all woman-owned businesses and/or of all black players in wine production. Our case study approach means that rich and valuable insights to answer our key research questions can be drawn from the range of in-depth interviews conducted, industry events attended, and secondary data assessed.

Challenges that we faced in conducting interviews included accessing sufficient time to speak to SME and women wine makers. Given the nature of their businesses, these entrepreneurs often play multiple roles in their companies and are extremely time-constrained, making it difficult to secure meetings.

In terms of secondary data, we accessed information on company profiles, various economic and social indicators including production, sales (local and export), imports, volumes of bulk and packaged wines, employment etc. primarily from Statistical Booklets and other databases from South African Wine Industry Information Systems (SAWIS) and South African Wine Industry Directory (SAWID). Other secondary sources of data accessed include Wines of South Africa (WOSA) website, Quantec (SARS) data, past publications on the SA wine industry such as academic publications from journal articles, company websites and industry publications from Who Owns Whom South Africa.

4. Structure and performance of South Africa's wine industry

Producing around 4% of the world's wine, South Africa is the world's eighth biggest wine producer. Even though South Africa has been producing wine in the Cape since 1659 (WOSA website, accessed in March 2023[15]), it is seen as a "new world" wine producer alongside countries like Australia, Chile and Argentina (Who Owns Whom, 2021). South African wine producers fit into a global value chain, with deep-sea export markets being important target markets. Wine exports increased substantially following the lifting of sanctions after democracy

[15] https://www.wosa.co.za/The-Industry/History/Three-Centuries-of-Cape-Wine/

in 1994. In 1997, total wine exports (which includes natural, fortified, and sparkling wine) were 110,042,742 litres. Of this, natural wine exports were 107,972,398 litres (SAWIS Statistical Booklet, 2007). In 2021, around 388,000,000 litres of total wine were exported. This represents a 253% growth in volume terms. See below for export trends).

Domestic consumption of wine has historically been relatively low in South Africa, with beer and ready-to-drink (RTD) beverages being in greater demand than wine (see Section 5.2.1). There are however growth prospects for the 'missing middle' in the domestic market, including in the growth in demand from African markets, which we discuss below. The main types of wine evaluated here are still wines[16] and sparkling wines.[17]

The wine industry contributed 1.1% of the country's GDP (R55bn) in 2019 (Who Owns Whom, 2021). Currently, there are around 90,512 hectares (ha) of land under vines cultivated by around 2613 farmers (see Table 1 below) (WOSA website, accessed in March 2023[18]; SAWIS Statistical Booklet, 2021; SAWIS, 2022). The planted area has decreased from 101,607 ha in 2005.[19] The industry employs 269,096 people both directly and indirectly (WOSA website, accessed in March 2023), and the prospects for greater employment in the wine tourism sector are significant (see below on wine tourism).

4.1. South Africa's wine industry value chain and industry structure

A simplified global value chain for South African wine in terms of product flow for export markets is given in Figure 1. At the primary level in South Africa, grape producers grow and sell wine grapes to wine cellars. At the secondary or wine production level, wine cellars produce wine which they sell to international marketers or producers located anywhere in the world or to importers, agents or distributors located in the importing country. In the importing country, these intermediaries sell to on-trade and off-trade markets, where on-trade refers to sales for on-premise consumption such as in bars, restaurants, hotels, nightclubs, and off-trade refers to sales for off-premise consumption such as through supermarkets, wholesalers and retail liquor stores. In some cases, wine producers sell directly to off-trade markets in the importing country.

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[16] 'Non-fortified and non-sparkling wine, including perlé wine which is wine carbonated to the extent that the pressure in the container in which it is sold is between 75 and 300 kPa. It also includes any grape juice or must and grape juice or must concentrate used in the sweetening of such still wine' (SAWIS, 2020 Statistics NR 45).

[17] 'Wine carbonated (either by fermentation or by impregnation with carbon dioxide) to the extent that the pressure in the container in which it is sold is more than 300 kPa. It includes any grape juice or must and grape juice or must concentrate used in the sweetening of such sparkling wine' (SAWIS, 2020 Statistics NR 45).

[18] https://www.wosa.co.za/The-Industry/Statistics/SA-Wine-Industry-Statistics/

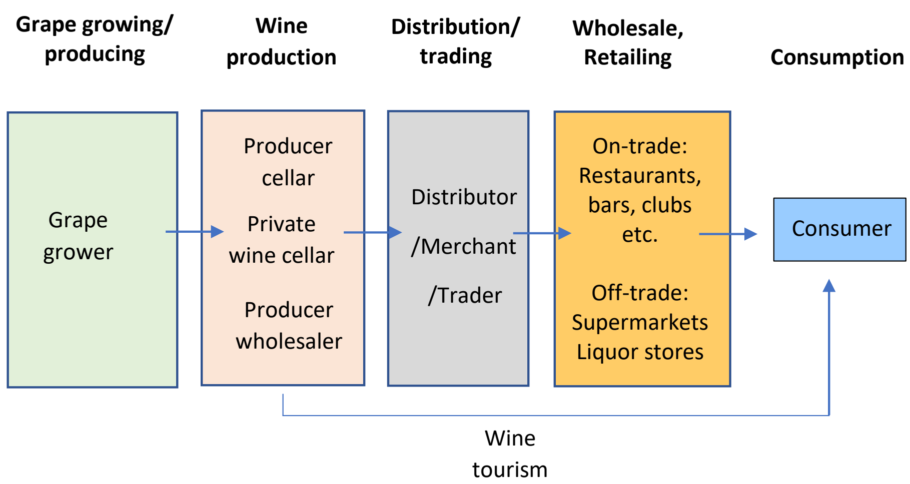
[19] https://www.sawis.co.za/info/download/Vineyards_2015_1.pdf and SAWIS Statistical Booklet, 2007.

Figure 1: Simplified wine global value chain in terms of product flow of South African wine

Source: Ponte, 2007

Sales within the domestic market also follow a similar product flow. Figure 2 shows this, with the addition of wine tourism, which is an important revenue earner for wineries (discussed below).

Figure 2: South African domestic wine value chain



Source: adapted from Goncharuk, 2017

In terms of industry structure, around 2,613 farmers operate at the **primary grape grower level**, the majority of whom (around 85%) produce 1000 tonnes or less (SAWIS Statistical Booklets, 2021). Only seven large grape growers produce more than 1000 tonnes (Table 2). The number of primary grape producers has decreased substantially from a total of 4,185 producers in 2006 to 2,613 producers in 2021 (SAWIS Statistical Booklets, 2006 and 2021). The largest decline has been smaller producers producing under 500 tonnes of grapes, while there has been some growth in the number of larger growers (>1000 tonnes). This illustrates considerable consolidation at the grower level of the value chain, revealing the challenges faced by small growers/farmers. Economies of scale appear important, and small farmers have either exited completely, been bought up by larger players, or started growing other crops that are more profitable.[20] Industry organisation Vinpro (see below) highlights that profitability at the farm level continues to decline, also as a result of rising input costs. This drives consolidation at the grower level.[21]

Prospects for SME wine grape growers, if not vertically integrated into wine production, appear poor at this level of the value chain. Vinpro reveals weak profitability at the grape grower/producer level, noting that only 9% of wine grape producers are sustainable and make profits, and can replant. Vinpro finds that 50% make 'low' profits, 3% reach breakeven, and 38%

[20] Interviews with SAW66, SAW75, SAW41, SAW79

[21] https://vinpro.co.za/wp-content/uploads/2023/01/2.-Nedbank-Vinpro-Info-Day-2023-Winning-in-Wine-by-Rico-Basson.pdf, accessed 27 March 2023, https://www.news24.com/fin24/companies/new-central-body-for-sa-wine-industry-announced-20230119, accessed 1 February 2023.

make losses. They calculate the average return on investment for producers in 2022 to be very low, only at 2.4%, while the industry's goals are between 8% and 10%.[22]

At the **secondary or processing level**, grapes are then processed into wine at wine cellars (wine production level). There are different models at this level. It is at this level that there are opportunities for SMEs and women wine makers to participate and where there has been entry of black women wine makers as we discuss in Section 5.

- A *producer cellar* receives grapes and processes it on a communal basis on behalf of a group of grape producers or its members and markets it as packaged or bulk wine (SAWIS Statistical Booklet, 2021; WOSA website, accessed in March 2023[23]). Also known as co-operatives, around 80% of South Africa's total wine harvest is pressed at producer cellars which have invested significantly in equipment (WOSA website, accessed in March 2023[24]). There are currently around 43 producer cellars (Table 2).

- *Private cellars* are owned by individuals or groups, and they produce wine from grapes (grow own grapes or buy in from other grape farmers) on their own premises and typically under their own brand names. We understand that private cellars may also buy wine from other cellars for bottling or blending (SAWIS Statistical Booklet, 2021; WOSA website, accessed in March 2023[25]). There are 471 private cellars (Table 2).

- A *wine producer* more generally processes grapes on their premises, whether own grapes or purchased grapes. A wine producer can also process grapes at another player's premises without needing separate registration (SAWIS Statistical Booklet, 2021).

- A *wine estate* is essentially a wine producer whose own farm needs to be demarcated as an estate approved by the Wine and Spirits Board (SAWIS Statistical Booklet, 2021). Following a new dispensation in 2004, estate wine can be produced in contiguous vineyards farmed as single units and must be sufficiently equipped for processing till final certification. Only certified estate wine can be labelled and marketed as 'estate' wine (WOSA website, accessed in March 2023[26]).

- A *producing wholesaler* acts as both a producer and a wholesaler. They can buy grapes for their own wine production or buy wine in bulk and packaged format from other wineries. This type of entity does not need to have its own premises (SAWIS Statistical

[22] https://vinpro.co.za/wp-content/uploads/2023/01/2.-Nedbank-Vinpro-Info-Day-2023-Winning-in-Wine-by-Rico-Basson.pdf, accessed 27 March 2023, https://www.news24.com/fin24/companies/new-central-body-for-sa-wine-industry-announced-20230119, accessed 1 February 2023.
[23] https://www.wosa.co.za/The-Industry/Overview/
[24] https://www.wosa.co.za/The-Industry/Overview/
[25] https://www.wosa.co.za/The-Industry/Overview/
[26] https://www.wosa.co.za/The-Industry/Overview/

Booklet, 2021; WOSA website, accessed in March 2023[27]). There are 22 producing wholesalers (Table 2).

The number of wine producers has also declined between 2006 and 2021, from 576 in 2006 to 536 in 2021, indicating a degree of consolidation (SAWIS Statistical Booklets, 2006 and 2021). Of the 536 players, only two or three main players account for most final production and exports.[28]

At the next or **wholesale level** of the vale chain, wholesalers buy wine in bulk and resell either in bulk or in packaged form (SAWIS, 2021). There are around 92 wholesalers (excluding producing wholesalers). This number has increased from around 87 in 2006 (SAWIS Statistical Booklets, 2006 and 2021).

Table 2: Number of players at each major level of the value chain (products)

Number of primary grape producers	Per production category	
	Tons	Number of producers
	1-100	983
	>100-500	886
	>500-1000	344
	>1000-5000	377
	>5000-10000	16
	>10000	7
2613		2613
Number of wine cellars which crush grapes		
	43 Producer cellars	
	471 Private wine cellars	
	22 Producing wholesalers	
536	536	
Number of bulk wine buyers		
114	114 Wholesalers (including producer wholesalers)	

Source: SAWIS Statistical Booklet, 2021

Distributors (or merchants and traders) also play an important role in aggregating bottled wine and selling throughout the country and to export markets, particularly within Africa. There are two main distributors. There is a degree of cross-ownership and vertical integration, with 51%

[27] https://www.wosa.co.za/The-Industry/Overview/

[28] Interview with SAW19 and 49

of one merchant owned by a prominent family who also own four wine estates.[29] We discuss the significance of distributors in terms of market access in Section 5.

The wine industry is supported by a range of key organisations that aim to promote research and development, market access / exports and transformation. These activities are funded through a statutory levy[30] charged on sales of the following products in the value chain: grapes intended for the production of wine, grape juice concentrate intended for use in wine, drinking wine, certified bulk export wine, certified packaged wine, uncertified export wine and distilling wine. The statutory levy is paid by wine producers, wine traders, wine spirit producer, and exporters of drinking wine.[31]

Key organisations include Wines of South Africa (WOSA), an industry owned, not-for-profit organisation with the objective of promoting and building South African brands globally. WOSA is funded exclusively from the wine industry through a statutory levy on exports[32]; Winetech, is an independent NPC which undertakes R&D and technology transfer through a research statutory levy; Vinpro, is an NPC representing around 2,500-2,600 wine producers, cellars and industry stakeholders on matters of government relations, profitability and sustainability, industry trends and technical expertise, specialised services in soil science to viticulture, agricultural economics, transformation and development; South African Wine Industry Information and Systems (SAWIS), deals with collection and dissemination of data; South African Liquor Brand Owner's Association (SALBA), is an NPC representing manufacturers and distributors in the liquor industry on issues of common interest; and SAWITU, which as discussed in Section 3 above, is responsible for transformation in the industry. The Wine & Spirit Board is appointed by the Minister of Agriculture, Land Reform and Rural Development (DALRRD) and comprises a chairperson and 12 members with expertise in the wine and liquor industries (see Figure 3). The Board, amongst other mandates, verifies claims on wine bottle labels on origin, vintage and grape variety, and administers the Wine of Origin, Integrated Production of Wine and Estate Brandy schemes (discussed below).[33]

[29] Interview with SAW31

[30] Industry applies for the statutory levy through the National Agricultural Marketing Council (NAMC)

[31] https://www.gov.za/sites/default/files/gcis_document/202106/44701gen353.pdf

[32] Interview with SAW1, SAW2

[33] https://www.wosa.co.za/The-Industry/Wines-Of-Origin/Wine-and-Spirit-Board/, accessed 2 February 2023

Figure 3: Key organisations in the wine industry

Source: SAWIS website, available at https://www.sawis.co.za/info/download/Organogram_2021.pdf

While this ecosystem of players is integral to the functioning of the wine industry and is important for the sustainability of the sector, there have been concerns that the current structure is too fragmented and that this does not benefit the industry as much as it could considering the low profitability levels particularly at farms. In January 2023, the industry announced that a new central body was being formed – SA Wine NPC – which would represent the interests of both producers and trade and would be operational by June 2023. The objective of the new industry body is to speak in one voice as an industry to promote growth, development and innovation. It also aims to increase efficiency, agility, coordination, and accountability for more optimal use of resources such as funding generated through statutory levies. SAWIS and WOSA will not be incorporated under the new body but will work with them through contracts.[34] Supporting WOSA and VINPRO from government's side are organisations that focus on wine tourism like the Cape Town and Western Cape Tourism Trade and Investment agency, Wesgro, which aims to position the Western Cape as a leading cultural and adventure capital in wine and aims to facilitate connections among the various relevant sectors.

The wine industry is further supported by various educational and private organisations. Stellenbosch University in particular offers pre-graduate as well as post-graduate degrees in Viticulture, Oenology and Wine Biotechnology, in addition to several courses and laboratories for testing and chemical analysis. The Cape Wine Academy also offers courses for wine professionals and enthusiasts at various levels. Programmes such as the Pinotage Youth

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[34] https://www.news24.com/fin24/companies/new-central-body-for-sa-wine-industry-announced-20230119, accessed 1 February 2023.

Development Academy provide skills development opportunities and certifications for youths from historically disadvantaged backgrounds in the wine industry.[35]

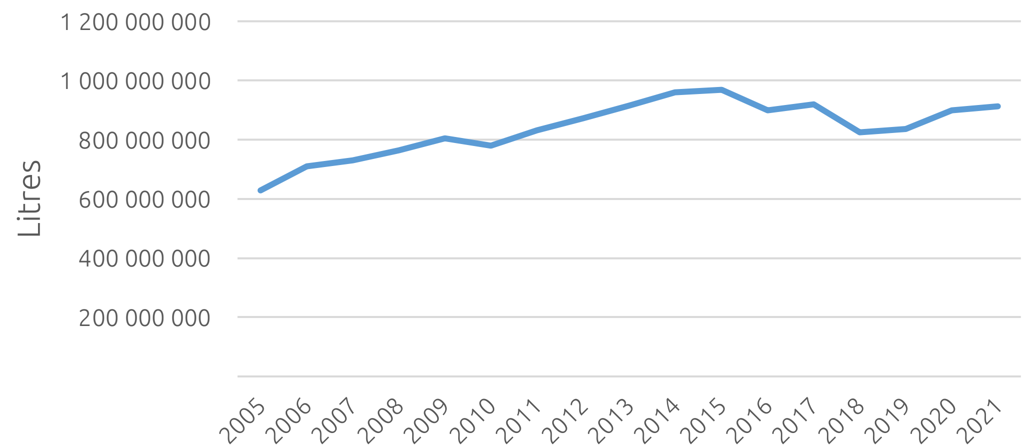
An important goal of the South African wine industry is overall sustainability in the forms of environmental, social, and economic sustainability. A range of organisations, in addition to the ones discussed above, aim to achieve greater sustainability on these fronts. Some do this through enforcing mandatory or voluntary standards. The South African wine industry has been a pioneer globally on environmental sustainability matters, with recognised standards such the voluntary Integrated Production of Wine (IPW) standard dating as far back as 1998. IPW is compliant with international environmental sustainability criteria. In 2022, 95% of wine sold by volume and 75% of viticulture area in South Africa was IPW certified. Other voluntary standards that some wine producers adhere to include the WWF's Conservation Champions, where members commit to biodiversity-friendly and regenerative farming practices, conserving their natural areas and improving their water and energy efficiencies. On social sustainability, around 1,400 producers are accredited by the Wine and Agricultural Ethical Trade Association (WIETA). WIETA aims to enforce sustainable ethical standards in the wine industry which includes, among others, labour and occupational health standards and fair working and living conditions for farm and cellar workers. The globally recognised Fair Trade accreditation is yet another voluntary standard adopted by some players which strives to ensure decent and fair working conditions on farms. Adherence to such standards is regularly monitored through audits. As we discuss in Sections 5, the push for these standards largely comes from the Global North– particularly buyers in Europe, Canada and the United States. In Europe, monopoly buyers like Sweden's government-run Systembolaget require adherence to high social, ethical and environmental standards (see Section 5.2.3).

4.2. Wine industry performance

Production of wine has not grown substantially since the mid-2000s, increasing from around 600 million litres in 2005 to only around 900 million litres in 2021 (Figure 4). The 2016 drought and COVID-19 pandemic negatively affected wine production, with volumes starting to recover slowly in 2021 (only around 2% increase from 2020 levels). In contrast, other 'New World Wine' producing countries like Chile and Argentina have seen remarkable growth, particularly since 2020. 2021 production in Chile increased by 30% from 2020 levels, and by 16% in Argentina (International Organisation of Vine and Wine Intergovernmental Organisation, 2022).

[35] https://www.pyda.co.za/know-us, accessed 22 March 2023.

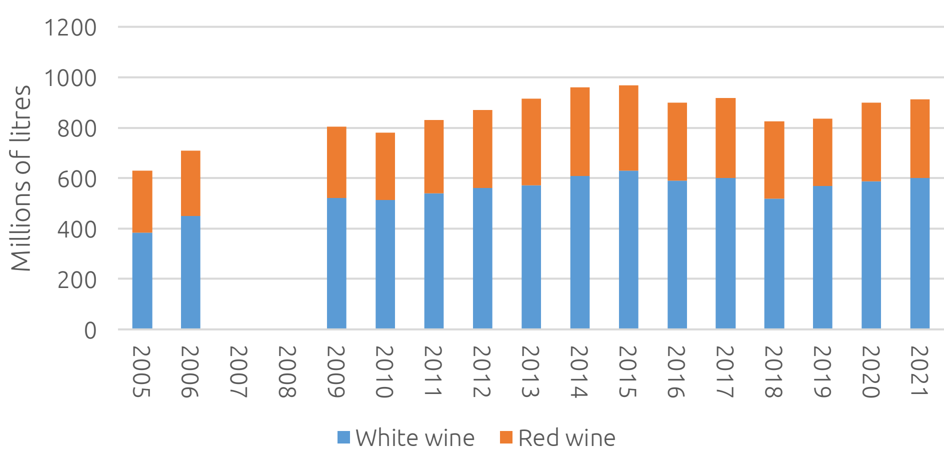
Figure 4: South African wine production (total wine products), 2005 to 2021



Source: Compiled from SAWIS Statistical Booklets, 2007 to 2021

In terms of the split of production between red and white wines, Figure 5 shows that white wine production accounts for about two-thirds more than red wine production with more vineyard plantings being of white wine varieties. This has been broadly consistent since 2005.

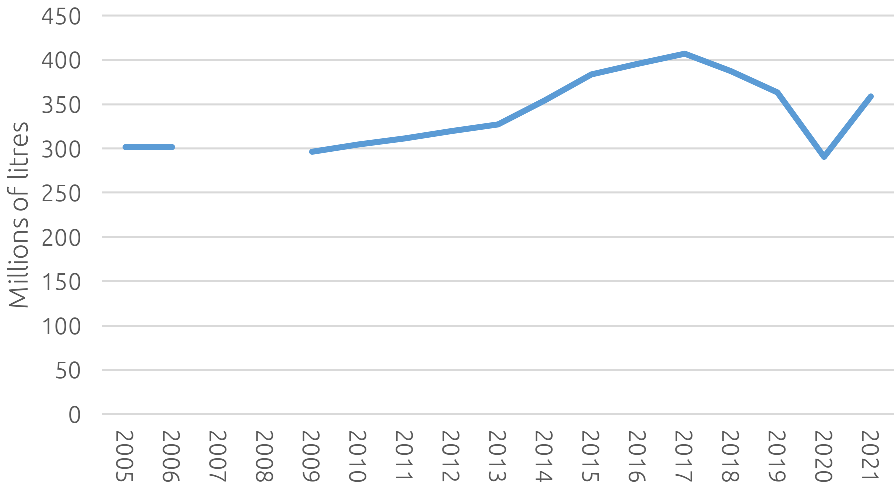
Figure 5: South African wine production of red and white wines, 2005 to 2021



Source: Compiled from SAWIS Statistical Booklets, 2007 to 2021. Gaps in 2007 and 2008 are due to not having access to all SAWIS statistical booklets.

As Figure 6 below shows, domestic sales have not improved much from 2006, although some recovery is seen in 2021. There is potential to grow the domestic market as previously noted, especially by targeting the growing black middle class (see Section 5.2.1).

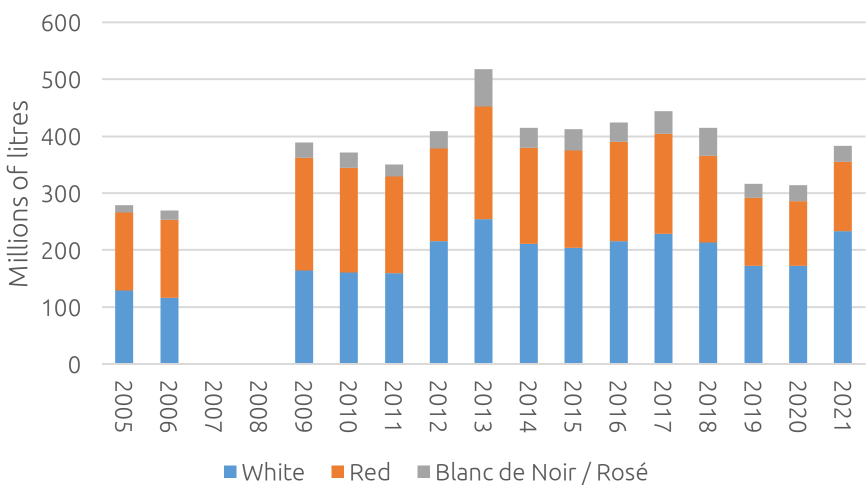
Figure 6: Domestic sales of still wine, 2006 to 2021



Source: Compiled from SAWIS Statistical Booklets, 2007 to 2021. Gaps in 2007 and 2008 are due to not having access to all SAWIS statistical booklets.

Majority of South African wine producers target export markets. Just under half of what is produced in volume terms is typically exported. Total still wine export volumes have been stagnant since around 2009 around the 400 million litre mark. Still wine exports exclude fortified, sparkling and Cap Classique (see Figure 7).

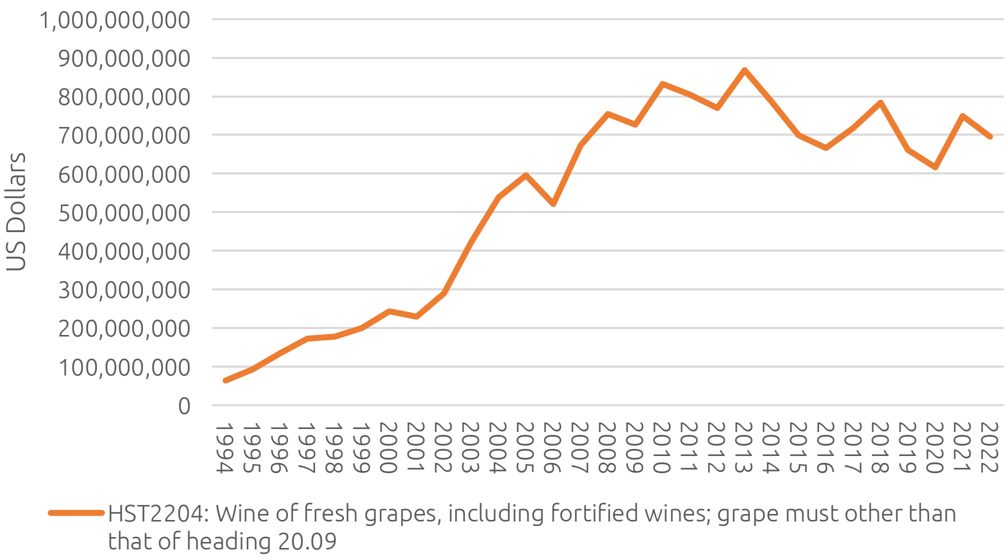
Figure 7: Still wine exports, 2006 to 2021



Source: Compiled from SAWIS Statistical Booklets, 2007 to 2021. Gaps in 2007 and 2008 are due to not having access to all SAWIS statistical booklets.

In terms of the export value of wine, data from the South African Revenue Services (SARS) obtained from Quantec shows that export values have increased around 10-fold between 1994 and 2021 (Figure 8). Values peaked in around 2013 and have been on a slight general decline since.

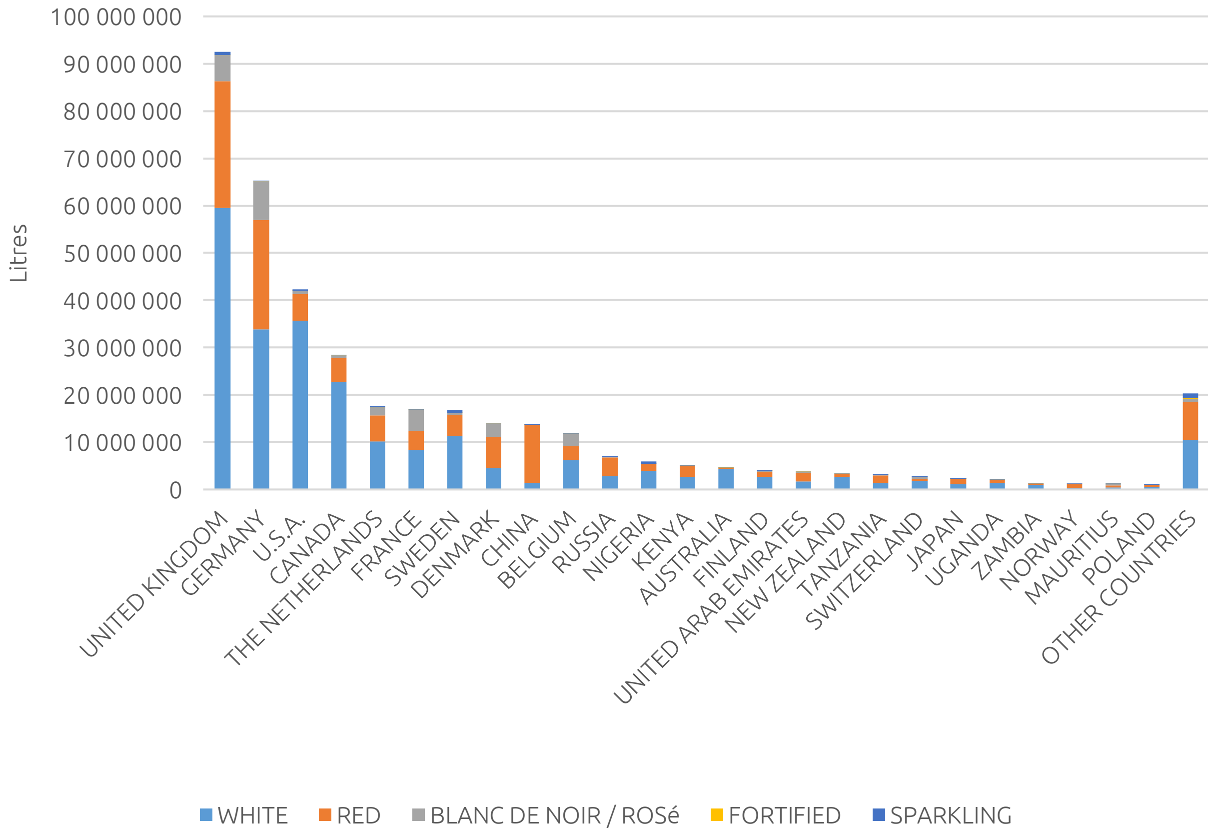
Figure 8: Still wine exports, 2006 to 2021



Source: SARS data obtained from Quantec. HST2204: Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.

Key export markets for South African wine include the UK, Germany, the Netherlands, France, Sweden, and other European countries, as well as Canada and the United States (Figure 9).

Figure 9: Top 25 export countries by packaged and bulk exports combined, excluding industrial wine, 2021

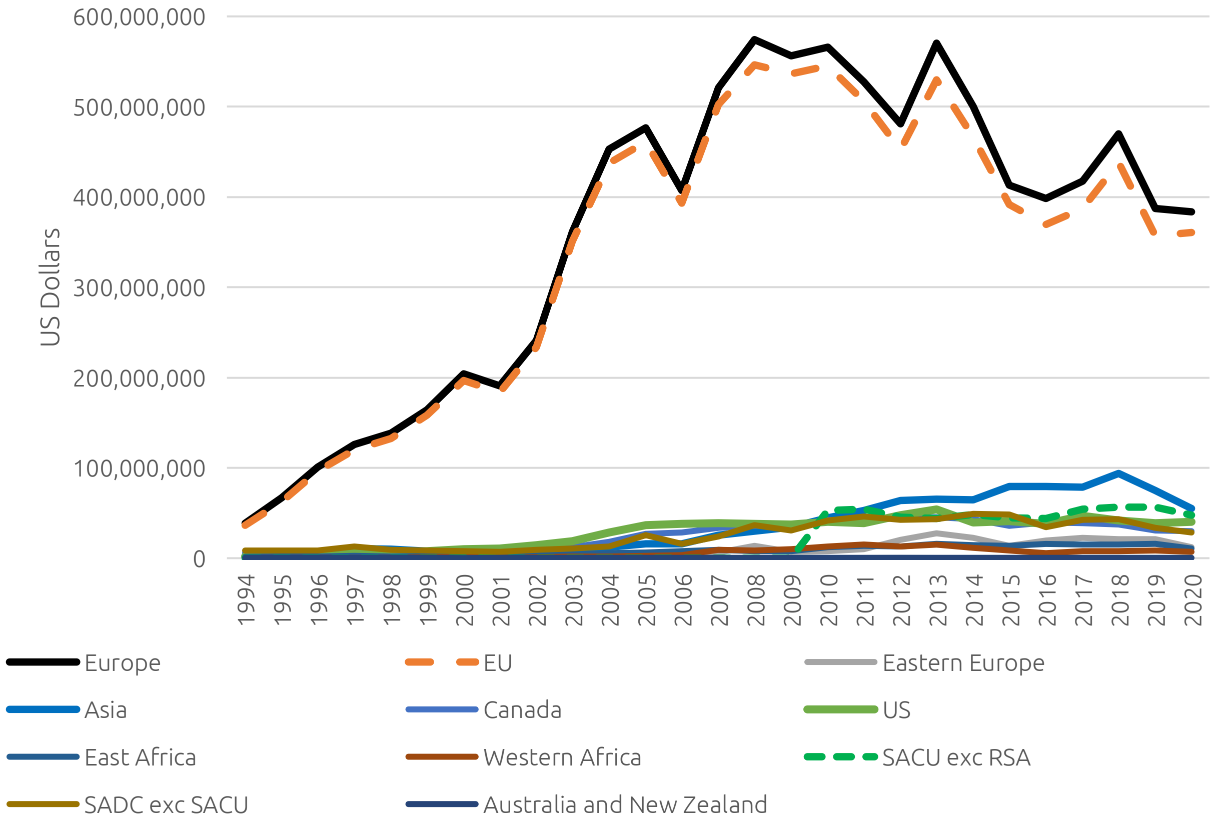


Source: SAWIS Statistical Booklets

Figure 10 below shows a general decline in exports to main European markets in terms of export values. Sales to Asia grew from around 2000, but a decline is seen from 2018. Sales to US markets have been fairly steady since the early 2000s. Notably, sales to SADC countries have seen an increase since 2009. We note however that this may be due to a change in how SARS data has been reported. Notwithstanding, our interviews also suggest that exports into African markets have been growing in some categories, such as boxed wine.[36]

[36] Interview with SAW34

Figure 10: Wine exports trends by destination, by value, 1994 to 2021



Source: SARS data obtained from Quantec. HST2204: Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.

There has also been a trend towards greater bulk exports. As shown in Table 3 below, in 2005, 68% of exports were packaged, while the remaining 32% were in bulk form. This totally flipped by 2021, with 62% of exports being in bulk, and 38% packaged. This has implications for the prices obtainable for exported wine and the perception of the quality of South African wine as we discuss in Section 5.2.2.

Table 3: Proportion of packaged vs bulk export sales, 2005 and 2021

	2005	2005 (%)	2021	2021 (%)
Packaged	189,350,030	68%	145,567,547	38%
Bulk	89,767,167	32%	242,565,602	62%
TOTAL EXPORTS	279,117,197		388,133,149	

Source: SAWIS Statistical Booklet, 2021

4.3. The wine tourism market

Wine tourism is another important income earner for wineries. Prior to the COVID-19 pandemic, in 2019, wine tourism contributed R2.4bn to the economy and to 14.3% of wine cellar turnover (Who Owns Whom, 2021). Wineries with tasting rooms, restaurants and accommodation can leverage this for an overall 'experience' and 'ambiance' associated with their brand. Of the R2.4 billion, wine tasting generated 32%, accommodation 25%, and restaurants 20% respectively. Other sources of income include conferences, food serving and wedding venues (Who Owns Whom, 2021). International visitors account for over a third (36%) of overnight and day visitors (Who Owns Whom, 2021). This highlights the international appeal of wineries in South Africa and the close links to the tourism sector.

For different sizes of wine producers and on average for the whole industry (across all sizes), wine tourism brought in the following proportion of their revenue (Table 4). What is striking is that for smaller wineries (less than R10 million in annual revenue), wine tourism accounts for almost half of their revenue, making it an important source of income for smaller players. This has implications for new entrants as well and for policy focus (see section 5.1.1).

Table 4: Proportion of revenue from wine tourism (2019)

Revenue range	Proportion attributed to wine tourism
>/= R10m annual revenue	41%
Between R10m and R50m	26.9%
Average of for all wine farms	14.7%

Source: Who Own Whom (2021)

5. Key findings from interviews and analysis

This section presents key findings from interviews with wine industry stakeholders and participants and analysis of the key research questions. As highlighted, we seek to understand barriers to entry through competition economics and global value chains (GVC) frameworks to answer the following key research questions:

1. What is the role and key activities of SMEs and women-owned businesses in the wine value chain?
2. What are the barriers to entry and growth faced by SMEs and women-owned businesses, particularly black-owned players, in the wine value chain?
3. What are the implications for competition and industrial policy to improve SMEs and women-owned businesses' participation in, and benefit from economic activities?

5.1. Entry of black SMEs and women-owned business in the wine sector: models of entry

Wine production in South Africa has historically been dominated by white-owned or managed businesses and entry and expansion of SMEs, particularly black-owned SMEs, in the wine industry has been limited. As highlighted in the introduction, less than 3% of sales are accounted for by black-owned brands (other estimates are less than 1,5% of sales) and 2.5 – 2.7% of area planted with grapes for wine is owned by historically disadvantaged persons (HDPs).[37] This is far from the transformation targets of transferring 20% of land and water rights into the hands of HDPs by 2025. [38] Key challenges include but are not limited to the fact that land for growing wine grapes is expensive and returns are marginal.[39] As such, these targets are considered unrealistic because of limited funding (discussed below). For example, estimates are that it requires R500,000 per year to operate a successful farm.[40] At the marketing level, to build a successful brand in local retail outlets like supermarket chains requires R2million for brand activation. Entrants also need mentorship, coaching, enterprise supplier development and access to markets.[41] We expand on these and other challenges in Sections 5.1 and 5.2 below.

To help overcome some of these challenges, and to achieve transformation objectives and greater participation of HDPs in wine, the ecosystem of support for black small and women-owned enterprises primarily revolves around the following structures, although other organisations also offer support (see Figure 3 above):

- South African Wine Industry Transformation Unit (SAWITU)
- Government support through Department of Agriculture, Land Reform and Rural Development (DALLRD) and NAMC
- Vinpro

As highlighted in Section 3, WOSA established SAWITU in 2019 to support entry of emerging black and women wine producers. SAWITU currently has 67 members and works with government through DALLRD. As noted, SAWITU is located within the Wine Arc premises near the Agriculture Research Council (ARC) in Stellenbosch. SAWITU leases the premises from the ARC facility from the Department of Agriculture. The Wine Arc aims to create a 'brand home' for black wine producers who may not have other physical, or land-based facilities (see section 5.1 below). SAWITU's activities are funded by statutory levies. 20% of WOSA's statutory funding is directed to SAWITU.[42] The government set the transformation levy at 20% of the industry's total levy income since 2015 (this is equivalent to ~R20 million per year).[43]

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[37] Interviews with SAW18; SAWS3
[38] Interviews with SAW18; SAWS3
[39] Interviews with SAW1, SAW2
[40] Interview with SAW18
[41] Interview with SAW18
[42] Interviews with SAW1, SAW2
[43] Interview with SAW18

SAWITU's key activities targeted at supporting entry and growth of black wine entrepreneurs include market access, coaching and mentorship, while VINPRO's focus is more around enterprise development. When applicants apply for funding through SAWITU, they may be channeled through Vinpro's Enterprise Development Unit for certain expertise which is paid for by SAWITU. This includes technical expertise, advice on BEE score cards, business models, profitability, vineyard operations etc. The unit also assists black entrepreneurs to partner with other black businesses to improve scorecards and assists with linking white producers or retailers who want to go into partnerships with black producers in BEE deals.

In addition to the industry's statutory levy, SAWITU also has other (but limited) sources of funding to finance transformation activities. One source of funding is from the EU through the 'Porto agreement' signed in 2004/5. South Africa gave up using the indications/names 'Port' and 'Champagne' for wines made in South Africa. As part of this arrangement, the EU compensated the South African wine industry with a total of €15 million to spend on transformation activities. The funds are earmarked to be used through two vehicles: €10 million is designated for land and infrastructure development and €5 million is for marketing, sales, and promotion activities. The agreement is said to also ask for a matching grant from government. We understand that the funding is only starting to be released now and that there have been some delays in modalities and vehicles for its distribution.[44] Given the challenges of limited funding for transformation activities in terms of statutory levies, the EU funding provides much needed funds to support transformation activities, but the delays in its release further impact transformation goals.

Notwithstanding the slow pace of transformation generally and the limited financial resources available for transformation objectives, black women-owned brands appear to be increasing and showing resilience. As highlighted above, of the 67 black-owned wine brands produced in South Africa 75% are women owned.[45] The entry experience of black women-owned enterprises into wine production is nonetheless challenging given that many do not come from a background or long family history of wine production. The significance of generational knowledge in the wine business is particularly striking in this industry. This goes hand-in-hand with networks and brands built over long periods of time, and close collaboration with suppliers and end markets. In the more 'traditional' wine market, new entrants and young wineries therefore generally struggle to build their brands and grow their footprint, with the loyal existing customer bases preferring established brands (Mabaya, Ross, Shresta and Weiss, 2014).

Without this history, and often coming into the wine industry 'cold', black-owned brands (both male and female-owned) typically enter through pursuing a passion they develop for wine making after exposure to the industry in some form. In some cases, this exposure has been through working in wineries or vineyards, in retail sales of wines (for instance, in restaurants), or other levels of the value chain. In other cases, this has been through opportunities in wine education (for instance, through courses, short learning programmes and university degrees

[44] SAW18

[45] SAW 18

such as at the University of Stellenbosch).[46] The knowledge built through wine education covers aspects on land, vineyards, production, selling, distribution, logistics and retail.

Black entrepreneurs have entered the wine industry through different models, some which have been more successful than others. We broadly categorise these as models of entry through virtual wineries (an industry term); land-based entry and offtake-based entry, and we discuss the dynamics of these below guided by our conceptual framework with respect to principles of governance, market and buyer power, upgrading and barriers to entry.

5.1.1. Entry through virtual wineries

A virtual winery model is a model of entry that appears to be a key way that black entrepreneurs can enter the wine industry. Examples of black-owned wine businesses more generally (male or female-owned) following the virtual winery model include Ses'fikile, Kumusha Wines, Aslina and Kara Tara. Under this model, the wine makers do not have land or vineyards, and are not involved in primary grape growing or even wine production. They enter through partnerships with established (often white-owned) wine producers that have vineyards, wine production and bottling facilities. The black-owned wine entrepreneurs make their own wine or blend wines in these production facilities or in rented winery space to their specifications or to jointly agreed specifications with their partners. The black winemakers 'buy' the bottled wine, add their labels, and mostly sell online, leveraging the producer's logistics and distribution networks in export markets. The virtual winery model allows black SMEs to scale up leveraging the partner's economies of scale in production, packaging material, branding, and marketing. In addition, in some instances, the partners extend credit on payment of the wine providing the SME with flexibility to pay later after sales have been made.

There are differing levels of control however for the black entrepreneur within these partnerships. Some have full control of their brand's production and manage the entire process.[47] Others have less control over certain aspects, with partners inputting more strongly into various aspects of wine production. From a value chain analysis perspective (see conceptual framework in Section 2), such partnerships allow for upgrading in the form of product and market upgrading for new entrants. These partnerships allow for new entrants to enter and possibly expand within the market and enter new markets without needing substantial capital to set up their own production facilities. While the new entrant creates the product and the brand, often in highly niche product spaces through unique stories and messaging, other practical aspects of production, business skills and market access are supported by the partner/s who have more experience and history in the wine industry. However, as stated above, depending on the partnership, the nature of control or how the SME is 'governed' in these partnerships might limit the independence of the new entrant and might limit certain upgrading opportunities.

[46] SAW3

[47] Interviews with SAW18; SAWS3, SAW45

While the virtual winery model is growing, there are still areas in which significant investment and incentives are needed.[48] Entrants through the virtual winery model highlight that they generally did not want to operate at the primary level of grape growing given that they do not have the skills and capabilities to farm wine grapes. Grape growing on its own is also not a profitable business, with the chances of success for new entrants very low.[49] This reduces the need for large tracts of land to start a wine production business for these entrepreneurs. Given the substantial political and water-related problems around land ownership in South Africa, the virtual winery model reduces access to land as a barrier to entry. Notwithstanding this, new entrants still require pieces of land where they can host customers for tastings and food pairings. This is important to build the brand and for exposure. Having a small vineyard as part of the tasting experience is also visually valuable, given the growing importance of wine tourism. Currently, black brands do not have a place where they can meet buyers and sell their products. A brand needs a brand home or facility to produce small batches of boutique style wine.[50]

To address some of these challenges faced by black brands, SAWITU created The Wine ARC as previously highlighted where black SMEs can produce wine, market their wines, and provide a space for hospitality and destination for wine tourism. The Wine ARC is a one roof/one stop which provides a brand home to black brands. Table 5 below lists some of the members. The majority of the businesses are women-led or women-owned.

Table 5: Wine Arc membership

	Company	Model
1	Aslina Wines	Virtual
2	Bayede Wines	Virtual
3	Cape Dreams Wines	Physical winery
4	Carmen Stevens Wines	Physical winery
5	Koni Wines	Virtual
6	La Ric Mal Wines	Virtual
7	Libby's Pride Wines	Virtual
8	Mhudi Wines	Vineyard (production part of cooperative)
9	PaardenKloof Wines	Wine estate (vineyard and physical winery)
10	Ses'fikile Wines	Virtual
11	Tesselaarsdal Wines	Virtual (although owns land planted for future vintages)
12	Thokozani Wines	Virtual - Partnership with Diemersfontein Estate
13	Nietvoorbij	Research farm of the Agricultural Research Council

Source: https://thewinearc.co.za/ and websites. We note that it was not always clear on websites on the model of entry was for these that we did not interviews. We are open to corrections to our understanding in the table above.

48 Interview with SAW11
49 https://www.news24.com/fin24/companies/new-central-body-for-sa-wine-industry-announced-20230119, accessed 1 February 2023
50 Interview with SAW55

The Wine Arc provides support (at a cost to its members as we understand) in terms of market access (through a physical location to meet clients and undertake tastings), e-commerce facilities, access to testing labs, cellars, access to root stock, and research and innovation facilities. The Wine Arc has researchers who conduct research on the above aspects including on price points. There are also plans to set up production facilities for brands that do not have their own production infrastructure.

The Wine Arc also has vineyards within the premises of up to 250 hectares of state-owned land. Of this, 50 hectares are planted. The Wine ARC further has a service delivery agreement with Vinpro for 4 years for delivery of technical services. As noted above, farmers can leverage Vinpro's technical knowledge for needs relating to soil analysis to inform their decision about what terroir and cultivar they need, market positioning and engineering.

Over the past 5 years, SAWITU has spent R100 million in supporting 20 black brands through providing access to use of these facilities. SAWITU conducts company evaluations and assesses each brand in relation to commercial positioning/success, brand strategy and technical viability, design, packaging, story, and benchmark testing for quality. Regarding brand stories, SAWITU assesses whether a product story is creating market interest. To monitor implementation, impact and to assess outcomes and address shortcomings in their programmes, SAWITU is planning to launch the Wine Management System (software) in 2023.

The success of entry through virtual wineries appears to hinge strongly on the quality of wines produced, the partnerships and the 'story' of the winemaker. The story of the winemaker may be more important in a virtual winery setting than in other models given that there is no physical land or assets to help build loyalty for a brand. These players struggle to penetrate the local South African market, including the growing black middle class, given the perceptions about black brands versus loyalty awarded to well-known brands. Although very challenging, these players have more success in international markets (see also in sections 5.2. and 5.3).

While SAWITU, including through The Wine Arc, aim to provide support to black entrepreneurs in wine, substantially more resources and commitments are required to hit the transformation targets earmarked for the industry. We return to this in the conclusions.

5.1.2. Land-based entry

Different models of land-based entry in terms of Black Economic Empowerment (BEE) and land reform processes. These include the willing buyer/willing seller model, where government buys land from the seller, then leases the land to beneficiaries.[51] We discuss this below in the context of worker-ownership schemes. Other land-based entry has been through land restitution programmes, where communities file claims to get ancestral land back to them, and where government buys the land (in some cases) and gives it back to the community. An example of the ancestral communities getting land back is the experience of Tesselaarsdal Wines, where a woman entrepreneur, Berene Sauls, was able to buy units of the designated land for her

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[51] SAW3

business. Through guidance, mentorship and support from her former employer, Hamilton Russell Vineyards, Tesselaarsdal now produces highly rated Pinot Noir and Chardonnay wines.[52] There are other smaller deals involving land-based entry which take different formats. In general, land-based entry models have been slow and riddled with challenges. We discuss some of the experiences below.

i. Farm worker / worker-ownership schemes

This model is where land is given to farm workers. There are several examples of this model, some which appear to be more successful than others. While the limited scope of this paper does not allow for an in-depth assessment of the successes and failures of this model, it is important to highlight some of the experiences of 'entrants' of black farm workers into the wine industry through this model. Worker-ownership schemes have been a focus in the Department of Agriculture, Land Reform and Rural Development (DALLRD)'s Agriculture and Agro-processing Master Plan (AAMP) and experiences on their successes and failures can offer useful lessons for future interventions under the AAMP. Worker-ownership schemes can be privately established, or government run or a combination of both.

A controversial example of a 'failed' worker-ownership scheme has been the Solms-Delta transformation project.[53] What started off as a private project by University of Cape Town Professor Mark Solms and British businessman philanthropist Richard Astor to empower farm workers in 2007 through ownership of 33.3% of the Solms-Delta business (at the time, a well-known and respected wine estate in Franschhoek, a museum and a restaurant, tours and tasting room) drew government's attention in 2016 when DALLRD entered into a partnership on the project. Substantial investments were made in worker accommodation, salaries, and training prior to the DALLRD partnership. The government bought the land and took over some of the debt and operating expenses from Solms and Astor, who continued to also invest in the estate. What was originally meant to result in employees as beneficiaries of a Trust getting permanent tenure of 50% of the land and ownership of 50% of the business, ended up with government owning the land according to the Strengthening of Relative Rights (SRR) for People Working the Land (50/50) Programme and effectively leasing it out, and initially managing the land, on behalf of the employees for a fee. The business ran into heavy losses, with challenges in production, sales and accessing export markets. There were allegations about which party was at fault for the challenges faced, with accusations of underhand deals, mismanagement and poor governance raised. Workers were not paid salaries[54] and the business went into business rescue (which was also challenged about not reaching the best outcome for the employees) and finally liquidation in 2018. While we have not studied this case in detail, nor interviewed the

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[52] https://www.news24.com/life/wine/feature-tesselaarsdal-it-takes-a-village-20230127, accessed on 22 March 2023,

[53] https://www.dailymaverick.co.za/article/2018-08-14-the-solms-delta-way-or-how-not-to-do-land-reform/; https://www.dailymaverick.co.za/article/2018-09-11-the-solms-delta-saga-the-perspective-of-mark-solms-and-richard-astor/

[54] https://www.pressreader.com/south-africa/weekend-argus-sunday-edition/20210905/281801402071277

players involved, a well-designed, managed and governed programme with proper support mechanisms and established market access appears critical. Government involvement appeared to have worsened outcomes for farmworkers in this case, however no firm conclusions can be drawn without further investigation. This example nonetheless emphasizes how power on the part of the State can also substantially impact outcomes and affect upgrading (see Section 2).

There are other worker-ownership schemes which are considered highly successful in the wine industry. One example is the empowerment initiative undertaken by a private family vineyard. Being an 8th generation family-owned business enabled this vineyard to invest in sustainability and transformation. With government support in 2009, the vineyard was able to offer 26% of the business to 260 permanently employed workers in the form of workers shares under a separate entity. Presently, there are over 100 worker shareholders. The vineyard is also Fair Trade accredited (see 5.2.3), and their transformation programme and projects that fall under it fit in well with the requirements for Fair Trade. These projects include community initiatives in education (basic and higher), healthcare, sport, housing, social clubs and transport-related projects. To be Fair Trade accredited as a producer, there are requirements around workers' standard of living and ethical treatment of workers that must be adhered to (see Section 5.2.3). Being Fair Trade accredited has opened export markets for their wines, such as in the UK, Netherlands and Sweden. Some retailers in these countries only sell Fair Trade accredited wines.[55] Fair Trade wines are sold at a premium, and this premium is invested back worker-owned entity and serves as a communal fund administered by the farm employees on projects that improve the social, economic and environmental conditions of their own community. There have been some concerns raised in the industry on how these premiums are used and whether farm owners are overly prescriptive or influential in how they are used (see also the discussion on this under Section 5.3.1). While we have not conducted an impact assessment of the outcomes of this land-based transformation and entry model example, the complementarities with globally recognised social accreditations like Fair Trade supporting transformation through worker-ownership schemes are interesting to understand in terms of the long-terms success of such schemes.

Yet another land-based model involving government is where government gives land to farmers as part of the Pro-Active Land Acquisition Strategy (PLAS). While we did not have the opportunity to interview players who have entered the industry in this way, we understand that there have been serious challenges with a lack of post-settlement support from the government following these deals, and many of these projects have not been successful. Land-based entry is generally very complex, as it requires both arable land and water rights (which some government land does not have), as well as access to funding for capital investment on the land. Another challenge of this model highlighted in our interviews is that the beneficiaries cannot use the land for collateral to get funding from the banks.[56] Without the required support, the beneficiary is unlikely to succeed.

[55] Interview with SAW54
[56] SAW3

ii. Winemakers acquiring land or existing farms and cellars

Another mode of entry is that of black winemakers acquiring land or existing vineyards, growing grapes, and producing and bottling wine (as part of a willing buyer willing seller model). This model requires substantial capital investment in infrastructure and facilities.[57] It also needs expertise in multiple levels of the value chain, especially in the grape growing level. There have been very few examples of successful entry through this model. In these examples, the winemaker has had experience in the wine industry prior to acquiring land and cellar facilities.

One successful entrant in 2017 through this model has been a black family-owned farm and winery in Sondagskloof near Stanford.[58] Family members had prior experience in both wine making and organic agriculture (fruit and vegetables more generally) and converted the land they bought from traditional farming methods to organic farming which was a difficult process. Their business is fully vertically integrated, from grape growing to bottling of wine they produce. In this way, they have complete control over the value chain and can make the required decisions at different levels. Their model also focuses on social and environmental sustainability. In addition to organic farming, they are located at a unique, young appellation suited for changing climate, given water availability at the location.[59] This is an important consideration for new entrants through a land-based model given climate change and water scarcity in South Africa. To bring in greater participation of workers into the business, the winery formed a cooperative. With respect to challenges faced by black businesses, this winery at Cape Wine 2022 highlighted that black brands were often treated with skepticism, and simply marketing a brand as black-owned was not sufficient. They needed to compete on quality, targeting both domestic and export markets.

Another successful black entrant entered through the acquisition of an existing, run-down vineyard and winery in 2019 in Franschhoek. This is the first 100% black-owned farm in Franschhoek and is widely seen as a success story in terms of the turnaround of the farm and the quality of wines produced.[60] The owner had prior experience as a wine maker in an established winery. His parents used to be labourers on farms. The winery produces five wines, with its flagship product being a Methode Cap Classique (MCC). Its restaurant also serves traditional South African cuisine as part of its offering. According to the entrepreneur, land in the Franschhoek area is very expensive and a significant barrier to entry. Further, given the small size of the farm, it has to compete on quality and not on volume. As noted by other black winemakers, black brands cannot only compete on the strength of their 'story', but need to offer high quality, niche products. Land-based entry is further challenging given the lead times to get products to market. For example, to make an MCC wine, one needs to plant a vineyard for 3 years, and then it takes approximately another 2 to 3 years to produce the MCC. It is only

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[57] SAWS3

[58] Seminars at Cape Wine 2022

[59] The choice of location was also influenced by affordability, with land in the more popular wine-growing areas being too expensive for new entrants.

[60] See the accolade in the New York Times: https://www.nytimes.com/2022/10/07/world/africa/black-owned-wineries-south-africa.html; Seminars at Cape Wine 2022

after this, and assuming the product sells well, that any return on investment is seen. This long lead time has severe implications for cash flow, as running costs (salaries, electricity etc.) continue to accumulate before sales are made. With barriers to accessing finance (see Section 2), this is a stumbling block for new entrants. Of interest to this paper in this example is the support received by the entrepreneur from other industry players. As a first-generation farmer, entering the wine industry was a major challenge. The entrepreneur needed mentorship which came in the form of support and advice from the next-door well-established player. The winery also received support from industry body Vinpro in terms of soil analysis, soil corrections and on what to plant.

iii. Wealthy black investor buying an already existing winemaking facility

There has been entry in the form of black investors buying existing wine farms (also a version of willing buyer willing seller model). These investors are not winemakers and are also not necessarily active in the wine industry prior to the investment. A recent example of such an investment is by South African billionaire Patrice Motsepe, who purchased a luxury 28-hectare wine farm called Hidden Valley near Stellenbosch and Somerset West for between R100 million and R120 million in cash.[61] This mode of entry is obviously not accessible to majority of black investors.

5.1.3. Offtake-based entry

An interesting example of a model of worker-ownership that was bolstered by a guaranteed offtake agreement by a major supermarket chain illustrates the value of certainty of market access. The established wine producer started off as a cooperative, with members bringing in grapes to the cellar for wine production. An entity was then created which is 51% owned by a workers trust and 49% by the established wine producer. The workers trust members do not own land or cellar facilities. In this sense, its model is a variation of the virtual wineries model.[62]

The established wine producer produces wine at entry, mid and premium levels. It secured a large supermarket chain's 'Bag in Box' house brand deal and plans to move the deal over to workers trust entity in a phased manner over time once the latter builds capabilities and expertise. The established wine producer will provide the required logistics backbone and infrastructure for the deal until the trust gets onto their own feet. As part of its black economic empowerment commitments, the large supermarket chain aims to move all its boxed wine to black wine producers (discussed below), and according to established wine producer, the supermarket chose them as one of their suppliers given their quality of wine, footprint and good labour relations. The deal is substantial, and it provides the workers trust the offtake guarantee it needs to ensure sales, while reducing costs and risks associated with new entry through its partnership with the wine producer. At the beginning stages of the deal, the wine

[61] https://africa.businessinsider.com/local/lifestyle/south-africas-richest-black-billionaire-patrice-motsepe-buys-a-luxury-wine-farm-for/kws2xp5

[62] Interview with SAW53

will be labelled as the supermarket's house brand. In the future, we understand that trust's name could be on the back of the box.

This example illustrates the power that large, lead firms, such as supermarket chains, have to 'sponsor' new entrants in the wine industry. What may start off initially as only production of retailer house brand wines can provide a stepping-stone for new entrants to enter and grow without the risks of first building a brand name and without the challenges associated with market access. This has implications for cash flow. In this case, the model of entry with the use of the established wine producer's existing production facilities further cushions the entrant in that it does not have to invest in production facilities upfront and can incrementally increase its ownership of the production facilities.

However, there are still challenges that these players face in terms of regulatory barriers to entry. These are around obtaining the required clearance from the Broad-Based Black Economic Empowerment (B-BBEE) Commission, a statutory body established by Section 13B of B-BBEE Act 46 of 2013 to oversee all matters relating to black economic empowerment.[63] Relevant documentation, according to the applicants, was submitted on 20 November 2021, and after feedback was received in May 2022, a resubmission was made. At the time of the interview (October 2022), there had been no feedback from the Commission. This has caused delays in the deal progressing. Other substantial barriers have been around access to finance, and the terms and conditions of finance, from commercial banks (also discussed later).

Other publicly available information we accessed also highlight the value of these guaranteed offtake agreements by large retailers. For example, one of the Wine Arc Brands, La Ric Mal Wines (see Table 5), has benefited from a partnership with large retailer, the Shoprite Group, allowing it to sell its wine (under its 'Lerato' brand) through the chain's extensive store network across Africa. Although not a direct example of facilitating new entry into the market, such off-take agreements open up local and regional markets for the brand.[64]

Drawing from our conceptual framework in Section 2, these examples clearly highlight how large, lead retailers through their governance of the value chain and position of gatekeepers to consumers can substantially impact the structure of supplier markets through facilitating new entry, in addition to strongly steering the type of new entrant (in this case, in the form of black ownership). Not only do these types of deals facilitate entry, but they also provide support towards product and process upgrading.

5.2. Key markets: challenges and opportunities

Consistently highlighted by smaller players was the importance of access to markets for the success of new entrants. Access to markets can be limited by the structural and strategic barriers to entry highlighted in our conceptual framework in Section 2 as we discuss below.

[63] https://www.bbbeecommission.co.za/about-the-commission/

[64] https://www.laricmal.com/2019/09/17/bright-future-ahead-for-enthusiastic-wine-entrepreneurs/, accessed on 22 March 2023

Black producers export a large proportion of their total production to major export markets in the UK, USA and the EU while the remaining share is sold in local and regional markets.[65]

5.2.1. Selling into local markets

As noted in Section 5.1.1, it has been a challenge for black wine producers to penetrate the South African market. Local sales are either on- or off-trade (Figures 1 and 2). Our interviews revealed that it is challenging for SMEs to sell through both the on and off-trade segments of the local market.

With regards to on-trade sales, the route to restaurants is largely dominated by only two distributors or merchants. These players have a degree of control over the list of wines that they present to restaurants for purchase, and we understand that it can be difficult for smaller and newer brands to get on to these lists. [66] As highlighted above, one merchant is 51% owned by a family who also own four well-established wine estates. This type of vertical integration with a key distributor may also make it difficult for non-vertically integrated producers to access distributors. As noted in the conceptual framework, competition concerns may emerge if independent players are foreclosed from selling through these two distributors in favour of the wines from their parent wineries. While we did not deeply investigate whether any foreclosure was happening in this case, we were informed that it was challenging for small and black brands to sell through these distributors. We further understand that these traders charge a significant margin.[67] This makes the product more expensive, and to meet market pricing points, wine producers may have to settle for lower margins at their end.

From the restaurant side, the owners or managers obviously also have a strong say in what goes onto their wine lists. Without established brands, new entrants struggle to get on to restaurant wine lists. In addition to this, the few black brands that have managed to enter restaurants allege that large and possible 'excessive' mark-ups are charged by restaurants on their wine sales, and this further discourages consumers from trying new wines given higher prices than they are willing to pay to 'experiment' on new wines.[68] High restaurant margins were also noted by a large, established wine producer, who highlighted that these needed to be lowered to grow sales.[69] This potentially raises competition concerns, where an excessive price charged at the restaurant level not only harms end consumers (in terms of reducing the options they have as a result of the higher price), but SME new entrant brands trying to build brand loyalty. We return to this in our conclusions.

In terms of off-trade sales, which account for the majority of local sales, supermarket chains dominate this route to market.[70] Consistent with previous research by CCRED as highlighted in

[65] Interviews with SAW53, SAW55, SAW68
[66] Interviews with SAW68, SAW81
[67] Interview with SAW51
[68] Interview with SAW45
[69] Interview with SAW31
[70] Interview with SAW81

the conceptual framework in Section 2, selling through supermarket chains can be very challenging for SMEs in agro-processing markets generally. There is only a handful of large supermarket chains with extensive store networks within South Africa and in the southern African region. The top five supermarket chains control 64% of grocery retail sales in South Africa (Competition Commission of South Africa, 2019). As such, and as noted previously, these supermarket chains are 'gatekeepers' to a large proportion of retail consumers, and access to them remains important to reach wide customer bases. Alternative retail models are limited in South Africa and independent retailers have been under pressure given the growth and spread of supermarket chain in urban, as well as in peri-urban and rural areas ('supermarketisation'). Our previous studies have highlighted some of the requirements, and terms and conditions imposed on suppliers by supermarket chains which can be onerous for SME suppliers and new entrants. These include listing or support fees, settlement fees, minimum volumes, packaging requirements, returns, rebates, promotion and advertising fees, exclusive dealing requirements in some cases and private standards and certifications amongst others. Large supermarket chains are able to impose these terms and conditions, often unilaterally, given the considerable buyer power that they hold.

Our interviews similarly reveal that it is difficult for black-owned brands and SMEs generally to supply supermarket chains.[71] To gain market access requires significant resources in terms of building relationships, spending time in the market, approaching supermarkets (and restaurants) and presenting samples of products.[72] For example, an estimate given was that it requires R2million to activate a brand listing in local supermarkets.[73]

There is intense competition for shelf space in supermarket chains. For black wine brands that are not yet well known in South Africa and that do not yet have a track record of strong sales, securing a listing with supermarkets is difficult as they do not sell as well as established brands.[74] If black brands go on shelves and do not sell, they get de-listed and this is costly for a producer. To list with supermarket chains, a producer must have a strong brand and maintain high quality.[75] Quality refers to reputation, consistency in what the consumer gets and making sure consumers get good value for money.[76] The reputation for good quality is bolstered through winning awards in competitions and conducting extensive wine tastings,[77] both of which require substantial investments. An example from our interviews was that it can cost around ZAR1,500 to ZAR2,000 for each entry of a wine into a competition, and if the wine wins, the producer has to pay for the right to use the sticker that comes with the accolade.[78] This makes building loyalty expensive.

[71] Interviews with SAW6
[72] Interviews with SAW82
[73] Interviews with SAW18
[74] Interviews with SAW68, SAW81
[75] SAWS3
[76] Interviews with SAW81
[77] Interviews with SAW81, SAW82
[78] Interviews with SAW6

In one case, the player we interviewed was able to get listings in a large wholesaler. This was attributed to the black marketing and purchasing manager for the wholesaler pushing for the listing of more black brands,[79] and is not necessarily always the experience of black brands approaching supermarket chains for listings.

Pricing points are also a problem for emerging wine producers in both local and export markets.[80] Black SMEs in wine are small and generally need high prices for their wines given lack of scale economies. This impacts their ability to compete against much larger producers with scale.[81] In general, supermarkets both locally and internationally have a price ceiling and put pressure on suppliers to drive down prices (although they have a few wines that are sold at high prices given the brand).[82]

There are however some noteworthy commitments by supermarkets chains as highlighted in the examples above with respect to house brands. The retailer procures wines produced by black businesses for its boxed wine under its private label brand, supporting black entrepreneurs by ensuring guaranteed off-take, better prices for their own inputs and in terms of packaging and branding.[83] This works in favour of the retailer as well in terms of its BEE procurement scorecard. As lead players that govern several key food value chains, supermarkets (both local and international chains that import from South Africa) are in a position to create opportunities for suppliers and affect their participation, innovation and upgrading along the wine value chain. Such opportunities have implications for economic, social and environmental upgrading for SMEs. We return to this in our conclusions.

There is still a fundamental issue with the size of the South African market that impacts on both on- and off-trade routes to market. South Africa is not a wine drinking nation. Only between 8-15% of the population drink wine, with the alcoholic beverages of choice being beer and ready to drink (RTD) beverages. Table 6 below shows that still wine only has 9% of the share of domestic alcohol sales.

[79] Interview with SAW68
[80] SAWS3
[81] SAWS3
[82] Interview with SAW81
[83] Interview with SAW34

Table 6: Domestic alcohol sales

	2019	2020	2021	2021 share
Still wine *	364.90	291.00	358.40	9.0%
Fortified wine	31.40	16.50	23.10	0.6%
Sparkling wine	11.60	8.50	11.40	0.3%
Spirits	133.40	112.90	146.40	3.7%
RTDs	565.20	421.20	607.90	15.3%
Beer	3226.50	2416.10	2834.00	71.2%
Total	**4333.00**	**3266.20**	**3981.20**	

*Still wine excludes the grape-based liquor and alcoholic fruit beverage component

Source: SAWIS Statistical Booklet, 2021

Wine is seen as a more aspirational beverage consumed mainly by the white population.[84] The emerging market for wine is however the young, black urban consumer. Growing sales in the local market by SMEs requires convincing this target population which is highly image conscious and brand loyal to consume new brands. Emerging black brands need to be able to relate to the perceived higher image of traditional brands and our interviewees highlighted the need for a more generic platform to raise awareness and the profile of wine. Emerging SME producers need to decide from the beginning what their brand stands for, what their positioning is in terms of price and quality, and which markets they are targeting.[85]

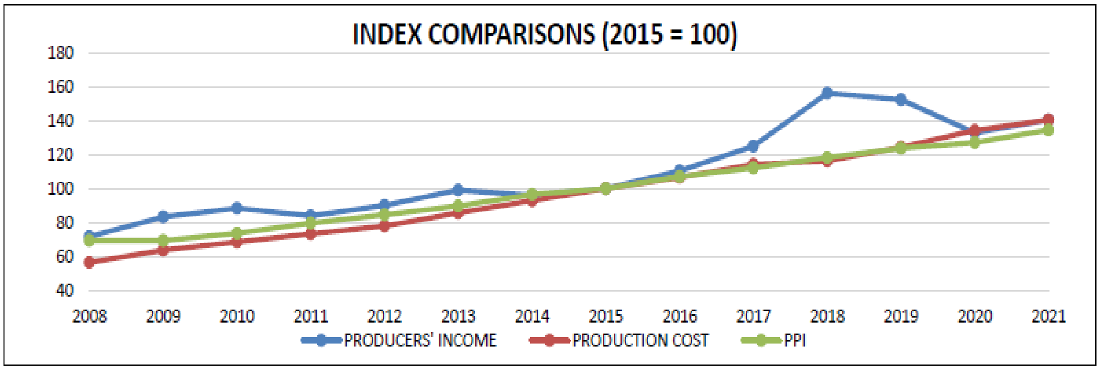
Another off-trade route to market is through online sales. Still very small at this stage, this route has seen some growth during the COVID-19 pandemic. Prior to the pandemic, online sales accounted for just 1% of wine sales. This grew to 6 - 7% in 2020 (Who Owns Whom, 2021). However, online sales work better for trusted brands that have already built some degree of loyalty. Compounding this challenge for new brands is that to promote online sales, good websites are needed, which some new entrants do not have.[86]

A key challenge which affects both local and export market sales is the rising production costs, especially for wine grape growers. As seen in Figure 11, data from SAWIS provide measures of producers' income and production costs in index form relative to the Producer Price Index (PPI). PPI represents an index of prices that producers across all sectors of the South Africa pay and therefore serves as a proxy for producer inflation, or the costs producers face. The wine industry index of production costs was slightly below PPI until 2015 (which was the base year), after which it moved in line with PPI till 2019 and then went above PPI between 2019 and 2021. The index of producers' incomes over both measures of costs was highest in 2018 (around 33%) and has been above the cost indices until 2020 (Covid-19), after which producer incomes are roughly at the same level as costs, indicating low or no profits. While an imperfect measure of

[84] Interviews with SAW1, SAW2
[85] Interviews with SAW81
[86] Interviews with SAW18

profitability, this provides an indication of margins of income over costs of much less than 30% for most of the period 2008-2021.

Figure 11: Margins in wine production, 2008 to 2021



Source: SAWIS Statistical Booklet, 2021

According to one player interviewed, 70% of wine consumed in South Africa is below the R60 a bottle price mark, so a producer makes money on quality, efficiencies and scale. As such, SMEs cannot survive by selling in the domestic market only, they have to export to be viable.[87]

5.2.2. Selling into export markets

As highlighted in Section 4, export markets are important for South African wine producers in general, and for black brands in particular. Considered a 'new world' wine producing country, South African wines compete with 'old world' wines from Spain, Italy, France, in addition to competing with other new world wines from Chile, Australia and New Zealand. Some black new entrants in South Africa have nonetheless managed to penetrate export markets. This has been because of the quality of their products, as well as their unique stories.

Figures 9 and 10 above showed that key export markets for South African wines are the UK, other countries in Europe, Canada and the USA. Sales to other African countries and Asia are also becoming more significant. In traditional export markets, South African wine is perceived as 'cheap and cheerful', and while it can compete in medium and high-quality wines, getting past this reputation in export markets is challenging. The perception of lower quality, 'value' wine has been perpetuated by the increased proportion over time of exports sold in bulk form (see Table 3, Section 4). Bulk wine exports follow different routes. Retailers in export destinations can purchase in bulk from South African producers and contract a bottler in their country to bottle for them, often under their own brand name. In another model, bulk wine is sold to merchants who blend them into other wines and blends. Lastly, very large South African players own bottling plants in countries like the UK to which they sell bulk wine to be bottled and sold

[87] Interview with SAW81

in Europe.[88] Exporting in bulk and bottling in export markets not only 'exports jobs' to these countries, it also gives the producer less control of the quality of the final product.[89]

In the US, which is a difficult market to penetrate, sales are through a 'three-tier system' of importers/producers, distributors, and retailers.[90] In countries like the UK and the Netherlands, large supermarket chains are important buyers of South African wines. In other European countries like Sweden, the monopoly buyer which is the government-run Systembolaget requires adherence to high social, ethical, and environmental standards, motivated in part by South Africa's troubled history around the treatment of farm and cellar workers (see Section 5.2.3). These export market buyers wield considerable power and impose numerous requirements on South African wine suppliers. In terms of supermarkets in export countries, terms and conditions similar to those listed in Section 5.2.1 are typically imposed on suppliers.

Environmental sustainability is also important to international buyers, and this translates into investments required in improved cultivars and vines, better irrigation, better energy and water use practices, promotion of soil health and less harmful methods of pest control, among others. These social and environmental standards imposed by global buyers have driven considerable investments by the South African wine industry, although it is important to highlight that the industry has also been in a pioneer globally on sustainability matters in its own right (see Sections 4; 5.2.3). Buyers in key export markets demand transparency from retailers and in turn retailers respond by demanding sustainability information and compliance from producers.[91] In response to these growing pressures and on its own initiative as a pioneer globally, the South African wine industry has created the various sustainability programmes discussed in Section 5.2.3 below and initiatives from the farm to the bottle.[92] Requirements from buyers in export markets pass on costs and risks to South African wine producers who have had to respond to these pressures. The challenge is that large buyers 'drive a hard bargain' and through the imposition of the various terms and conditions highlighted previously, can lead to squeezed margins of suppliers. In other words, while they require adherence to various standards, they are not willing to pay higher prices for the wine. This makes it hard for suppliers to further invest in economic, social and environmental upgrading, and also outright excludes suppliers who cannot afford to meet these standards. This is the case especially in South Africa, where financial markets are not accessible to SMEs. Powerful buyers in global markets therefore govern the value chain and directly impact upgrading activities within the chain in South Africa.

Selling into export markets also requires 'Brand South Africa' to be effectively marketed to current and potential future export destinations. We return to this in the recommendations in Section 6.

[88] Interviews with SAW1, SAW2
[89] Interview with SAW6
[90] https://www.bizcommunity.com/Article/196/786/236499.html#, accessed 3 March 2023
[91] Interviews with SAW1, SAW2
[92] Interviews with SAW13, SAW50

5.2.3. Accreditations and certifications for local and export markets

Wine industry participants adhere to various mandatory and voluntary standards. As previously highlighted, these are in the form or accreditations or certifications that convey commitments on not just what is in the bottle in terms of ingredients, quality and origin, but also on the ethical, social and environmental journey of the wine from farm to bottle.

Introduced in Section 4, the Integrated Production of Wine (IPW), the WWF's Conservation Champions, the globally recognised Fair Trade accreditation and the local Wine and Agricultural Ethical Trade Association (WIETA) standard all aim to ensure social and environmental sustainability. Some of these standards, such as Fair Trade, which strives to ensure decent and fair working conditions on farms, are increasingly being demanded by supermarkets in the UK. For instance, the UK's Co-op supermarket chain now only stocks Fair Trade accredited South African wines on its shelves. Other international standards such as ISO 22000 for food safety management system and Hazard Analysis Critical Control Point (HACCP)[93] as well as Fair for Life[94] are also invested in by producers in South Africa. There are also accreditations for organic and bio-dynamic farming and production methods. Private standards are also imposed by supermarkets locally, for instance, Woolworths has its 'Farming for the Future' which its suppliers need to adhere to. Other applicable local standards include Sustainability Initiative of South Africa (SIZA) which provides a platform for agricultural stakeholders to ensure ethical and environmentally sustainability.

These accreditations are important for sustainability and important for producers to enter markets, including as a point of differentiation from wines from other countries. However, they do come at a cost. Acquiring and maintaining these accreditations is expensive, especially for SMEs. It requires regular investments and multiple audits, the costs of which are typically borne entirely by the producer. Some buyers however offer support for first-time suppliers in terms of lowered fees.[95] One producer interviewed highlighted that all the accreditations they have cost them around ZAR1.5 million annually. For a particular accreditation, this producer noted that they have to make payment every 30 days, in addition to paying a license fee every quarter.[96]

A big challenge with practicing certified organic farming, for example, is the cost of certification itself. There are no accredited auditors in South Africa. Buyers send auditors from Europe to ensure that certification is provided with integrity and local producers pay for these services. In addition to the high costs of organic certification, a farmer/producer requires different

[93] HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product. https://www.fda.gov/food/guidance-regulation-food-and-dietary-supplements/hazard-analysis-critical-control-point-haccp

[94] https://www.fairforlife.org/pmws/indexDOM.php?client_id=fairforlife&page_id=about&lang_iso639=en

[95] Interview with SAW34

[96] Interview with SAW22

certifications for the US/Canada and the EU markets. While producers exporting from the EU have their certification recognized as equivalent for the US market, producers from South Africa cannot use their EU certification to export to the US. Despite these challenges, farmers must comply and pay these costs because they need credibility and if they do not have the certification, they cannot get entry into the organic market.[97]

While the various standards and accreditations help producers access global markets, they may be unable to charge high enough prices in these markets as discussed in Section 5.2.2. above to ensure sufficient returns to justify the investments.[98] Given a proliferation of standards and different buyers requiring different standards means that to diversify markets, producers must invest in multiple standards, further adding to costs. Wine producer margins are further squeezed when large buyers such as supermarket chains exert their superior bargaining positions to force purchase prices down and demand onerous terms and conditions from producers. As noted above, on one hand therefore, large buyers demand higher standards from producers, but on the other hand, they are not prepared to pay prices that allow for the investments in these standards to be recouped. With increasing consumer awareness and growing demand for environmentally sustainable products, some investment costs might be passed on to consumers through higher prices, but this is difficult because of the perception globally of South African wine being of lower quality. Overall, a main concern raised against increased demands for sustainability is that buyers and retailers in key export markets are not willing to pay higher prices for these products. The increased costs, if not passed onto consumers, are either passed on back through the value chain to the grape growers[99] or they squeeze the margins of the producer. While larger and more established producers with well-known or premium brands might be able to absorb these costs, without adequate support, emerging South African wine producers and entrepreneurs continue to struggle to participate in global markets. This can further perpetuate inequalities that are already deeply entrenched in South Africa, with wide disparities between established white-owned businesses and emerging black and women-owned businesses in the wine industry.

It is also important that the existing accreditations evolve with advancements in social and environmental issues, and with technology and innovation. If not, there is a risk that acquiring and maintaining accreditations simply becomes a tick box exercise without serving its objective and realizing it potential. There is also a need for flexibility which acknowledges that some practices which are on the standard checklist as part of audits may not / no longer be appropriate. Examples of such practices given in interviews were the insistence on the requirement for mobile plastic toilets (and where permanent structures were not accepted, assuming these would be easily accessible to workers throughout the vineyard or cellar) and on cement slabs for washing pesticide sprayers, even on farms where no chemical pesticides were used.[100] This speaks to the training given to auditors to allow them to exercise some discretion,

[97] Interviews with SAW13, SAW50
[98] Interviews with SAW1, SAW2
[99] Interview with SAW10
[100] Interview with SAW51

and importantly, it highlights the need for ongoing research in the wine industry to keep abreast of new developments and tailoring the standards accordingly.

5.3. Other challenges in the wine industry

There are several challenges that the wine industry faces. These challenges affect all players in the wine value chain (and in many cases, extends to other agro-processors) but are disproportionately more challenging for SMEs, and even more so for women businesses in wine.

5.3.1. Environmental and social sustainability

As we have already highlighted, one of the industry's biggest challenges is sustainability. Sustainability encompasses both social and environmental sustainability given the highly skewed patterns of ownership and historical legacies of racialised and gendered inequalities, and the growing effects of climate change.

1. Environmental sustainability

In terms of climate change, agriculture constitutes a major contributor to CO_2 emissions, alongside the buildings, transport, industry, and mining industries.[101] In South Africa, the impacts of climate change are already seen, amongst others, in too much rain in some zones, and droughts and desertification in other zones. Developing climate and environmentally friendly solutions for agriculture forms a critical part of the efforts to address climate change.[102] The wine industry, through its various initiatives as previously discussed, has been globally pioneering in dealing with some of these issues. The industry recognises that the responsibility to reduce CO_2 emissions needs to be approached across the whole value chain beyond the producer to include wine writers, supermarkets, importers, distributors.[103]

Based on a US study, 17% of carbon footprint in the wine value chain is on the farm while 29% is from the bottle.[104] At the grape vineyard level, farmers are shifting towards regenerative and organic agriculture practices alongside biodiversity/land sparing and mixed animal farming to rebuild the soil and to sequestrate carbon through controlled grazing.[105] The combined use of these methods is claimed to give better quality, increased yields, financial benefits and risk management.[106] Grape growers are also replanting vineyards with drought resistant clones and

[101] We note that there are huge inequalities in emissions across developed (mainly involved in large scale agriculture) vs developing countries (small scale/subsistence agricultural). A deeper engagement of this however is not within the scope of this paper.
[102] Interviews with SAW13, SAW50
[103] Interviews with SAW13, SAW50
[104] Interviews with SAW13, SAW50
[105] Interviews with SAW13, SAW50
[106] Interviews with SAW13, SAW50

better varietals.[107] Organic and biodynamic certified wines are still a small proportion of South African production, even though demand for them is increasing in some markets.[108]

Some vineyards have water management systems (also a requirement under WWF's Conservation Champions), including through water dams and drainage systems. They have invested in greening projects such as planting indigenous trees and trees such as acacia as natural barriers for animals.[109] Some vineyards are aiming to move off-grid, running on solar and installing batteries for storage, reducing their reliance on unstable coal-based electricity from Eskom. While greening practices initially add to costs and affect yields for a period, in the long term, there is a recognition that they can lower costs. Access to 'patient' finance to make these up-front greening investments is therefore important.

At the bottling level, there is a push to move from heavy bottles to lighter bottles[110] including cans, square bottles and boxes.[111] Retailers in the EU especially in Scandinavia also want lighter bottles.[112] There are also new packaging formats such as PET, Bag-in-Box and Tetrapack, which are being done in-house especially by the large companies[113] and recyclable or 'greener' forms of packaging (closures, boxes, labels). But the perception of consumers is still a challenge with glass still being regarded as a more suitable material in which wine can stay in it for many years. Winetech also has a bottling committee focusing on quality parameters and fill levels were working with Consol (and previously Nampak – see below).[114] Bulk exports are good from a carbon footprint perspective, and this is becoming important for retailers as well.[115] However as previously highlighted, bulk exports attract lower prices which become associated with lower quality, and bulk exports also 'export' local bottling jobs.

Beyond the farmer and cellar level, there are also efforts at an industry level to address the effects of climate change. As highlighted, around 95% of wineries in the industry are currently IPW certified and can use a sustainability seal affixed to the bottle as IPW certified wine.[116] Furthermore, industry bodies such as Winetech leveraging their research and development capacity are responding to the demands for sustainability through focusing on various aspects including effective use of water, changing rainfall patterns, and plant breeding of disease and climate change resistant varieties. The effects of climate change create a growing role for R&D, and this has seen a shift from conducting theoretical research towards practical research with solutions for farmers.[117] For example, the breeding of new and improved varieties takes 8-10

[107] Interviews with SAW1, SAW2
[108] Interviews with SAW13, SAW 50
[109] Interview with SAW51
[110] See for example, SAW51, SAW13, SAW50
[111] Interviews with SAW13, SAW50
[112] Interviews with SAW1, SAW2
[113] Interview with SAW21
[114] Interview with SAW21
[115] Interviews with SAW1, SAW2
[116] Interviews with SAW1, SAW2
[117] Interview with SAW21

years and requires collaborations with international partners.[118] Winetech, as noted in Section 4, is a South African wine industry body formally registered as a non-profit association. It manages the research statutory levy to carry out research and development, knowledge transfer, innovation, and learning and development functions. Their R&D remit includes issues related to sustainability, climate change, water use, and plant breeding. In viticulture, they are involved in pre-breeding to develop resistant varieties to fungal diseases (and to less extent) drought resistance. In winemaking, they are working on water reuse in the cellar and on developing energy guidelines.[119] A key Winetech innovation is Terraclim, which collects and provides data to the fruit and wine industries on cultivars, rootstocks, areas to plant, soil data and environmental data; control techniques for pests and diseases; cover crops and reutilization of water in cellars. The industry now uses 30% less water of the same quality.[120]

2. *Social sustainability*

We noted in Section 3 that a thorough assessment of farm worker living and working conditions was beyond the scope of this paper. We also highlighted that we gathered some information on this through our interviews, including because the topic is closely linked with social sustainability standards. We briefly discuss some insights on this from our interviews here but reiterate that this is by no means a comprehensive assessment on the topic. We include this because we feel that it can to some extent inform initiatives as part of the AAMP as we discuss in the conclusions.

A key challenge that continues to affect the industry relates to worker conditions on farms and cellars, especially for women. These have informed the accreditations for ethical standards discussed above (e.g., WIETA, Fair Trade etc.) and requirements from importing countries (e.g., Scandinavia, Canada, UK) which have made some strides in addressing the historical treatment of farmworkers. However, challenges still prevail.[121]

The Women on Farms Project (WFP), who is also a partner in the wide Fair4All project, is an organization that works with women who live and work on commercial farms to empower them primarily through rights-based capacity building as well as community-based support. Campaigns have included addressing violence against women, access to quality healthcare, and proper sanitation facilities on the farms.[122] Following a 2018 study[123] on seasonal and permanent workers on wine farms, several concerns emerged around employment contracts, minimum wage, and real working conditions. Major challenges with employment contracts included a lack of understanding of contents, language, employment terms and conditions. In addition, real working conditions seem to remain poor for farm workers, especially women, as

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118 Interview with SAW21
119 Interview with SAW21
120 Interview with SAW21
121 See also a recently released report on farmworker conditions: https://finnwatch.org/fi/julkaisut/ihmisoikeudet-etelae-afrikan-viinitiloillan%20rights%20in%20South%20African%20%20wineries
122 https://www.fos.ngo/womenonfarms/
123 This information was obtained through an interview with WFP.

they have no access to toilets in some vineyards and are exposed to pesticides without personal protective equipment (PPE). Male workers tend to have better access to PPE or are in enclosed tractors.

According to WFP, the study also highlighted that certain conditions have in fact deteriorated after 2018, in particular wage conditions. For example, the National Minimum Wage stipulates an hourly rate for farm workers. Prior to this, it was a weekly or monthly rate and seasonal workers were assured of a weekly or monthly salary. In response to (or to 'bypass') the increases in the minimum wage, some farmers have reduced the number of hours worked for seasonal workers which tend to be mainly women, leading to a loss of job security. Seasonal workers do not have certainty on which days they are working, and how many hours they are working. These trends are also happening in the context of increased migrant labour. Farmers prefer to employ migrant workers and exploit them by making them work for 50% less than the minimum wage. This contributes to xenophobic sentiments and attacks in which local nationals accuse foreigners of taking their jobs. These conditions appear to be exacerbated in that many farmers do not allow workers who live on their farms to form trade unions on farms and workers do not know their rights. There is even less representation for women seasonal workers. While there are trade unions in the Western Cape province such as Casual Workers Advisors which works with workers in Distell, according to WFP, there is a non-existent relationship between worker rights organizations - Women on Farms Project (WFP), Trust for Community Outreach and Education (TCOE), Surplus People Project (SPP), the trade union - Commercial, Stevedoring, Agricultural and Allied Workers Union (CSAAWU), and the South African Federation of Trade Unions (SAFTU).[124]

Another challenge at the farm level relates to farm worker evictions. Although the government established the Extension of Security of Tenure Act (ESTA) to prevent arbitrary and instant evictions on farms, the law is poorly formulated and there are many loopholes in the system. There are evictions which fall under 'legal' forced evictions and ESTA allows for this. However, there appear to still be illegal forced evictions happening. Alongside legal and illegal evictions, there are allegations that farmers also use 'constructive evictions' where they make living conditions for workers difficult and unbearable through for example, switching off water and electricity forcing the worker to eventually leave. There are also allegations of the strong exercise of paternalism by some farmers with regards to insisting that family members of farm workers over the age of 18 years must work on the farm, or else be evicted.[125] ESTA is silent on the rights of persons over 18 years.[126] Poor law enforcement by government coupled with workers not knowing their rights compounds these problems. Although the country has put in place legislation, there is poor enforcement of the current laws for the industry. These further compounds the low level of compliance with worker conditions and there are no consequences for non-compliance. [127]

[124] Interview with SAW44
[125] Interview with SAW44
[126] Interview with SAW44
[127] Interviews with SAW11, SAW44

Regarding ownership in companies for women farm workers (for instance, through the worker-ownership schemes discussed in Section 5.1.2 above), although some women have shares in wine companies, there have been concerns that WFP has picked up on the ground where women are not receiving their due dividends. These concerns are allegedly across the board, including on black-owned and black managed farms and Fair Trade-certified farms. Similarly, while some of the workers have equity on the farms and they receive Fair Trade premiums, the decisions on how to spend these resources are not always driven by the workers. While WFP has some good examples on how the premiums are used; there are also extreme cases where the farmer is very prescriptive on how the premiums are spent.[128] We reiterate that we have not directly interviewed women farm workers for this project, and deeper research on such issues by those with expertise at this level of the value chain is important.

Other challenges in farm worker communities relate to lack of access to programs and services such as public transport, health services, education, other support especially in remote farms. This has led to development of community projects such as the Pebbles project.[129] The Pebbles project is non-governmental organisation which was created in 2004 to address such issues at the farm level. The organisation works in partnership with the Ministry of Health and Department of Social Development to provide a range of services including education, early childhood development, health clinics and nutrition programmes for farm communities. The Pebbles project has expanded these services from wine into fruit, citrus and rooibos farms as the challenges are similar across the different industries and areas. To supplement their incomes, the Pebbles Project charges fees to farms where these workers are residing. However, not many farms support the project or support it in a limited way.[130]

5.3.2. Lack of competition in the supply of glass bottles

Competition concerns emerge at a key input level in the wine industry – that of glass for wine bottles. Currently, the supply of glass bottles in South Africa is essentially controlled by quasi-monopolist Consol Glass, after the second producer of glass bottles with 25% of the market, Nampak Glass, was in 2019 sold to Isanti Glass 1 (owned by Kwande Capital and SABSA Holdings, which is the holding company of the South African Breweries (SAB) and a wholly owned indirect subsidiary of Anheuser-Busch InBev SA/NV).[131] SAB is a large beer producer, and therefore also a big user of glass bottles. It is not clear if Isanti Glass 1 is currently supplying glass bottles to the market.

All wine producers are presently therefore directly or indirectly reliant on Consol Glass.[132] This has been highlighted as a problem as there is not enough glass,[133] and has been exacerbated by Consol halting its expansion plans during Covid-19 due to low demand because of the alcohol

[128] Interview with SAW44
[129] Interview with SAW15
[130] Interview with SAW15
[131] http://www.nampak.com/Investors/Media-Release/2019/nampak-sells-glass-business-for-an-estimated-r, accessed 4 March 2023
[132] Interviews with SAW22, SAW1, SAW2
[133] Interviews with SAW31; SAW5

sales ban. The expansion is now continuing but it will take time for the supply constraint to be eased. In the interim, the shortage has put upward pressure on the price of a key input for wine producers. One producer estimated that Consol's prices increased by 14% during the Covid-19 period.[134] This also lowers the competitiveness of bottling in South Africa, perpetuating the trend of exporting bulk instead of higher value bottled wine. We provide some recommendations for this in Chapter 6.

5.3.3. Global shipping challenges

From a supply chain perspective, the industry has been experiencing shipping challenges worsened by the pandemic. During the pandemic, 60% of the world's shipping containers were reportedly held up in the USA. Demand and supply of containers was skewed, resulting in shortage of containers. This caused delays of 3-4 weeks on certain routes.[135] Delayed shipping has led to exported wine not getting on supermarket shelves on time.[136] One interviewee was of the view that the most rents in the wine supply chain are extracted by shipping companies and booking agents. According to this producer, it has become five times more expensive to import wine from South Africa. Another suggests that containers have become five to ten times more expensive.[137] The producer/exporter pays costs up until the product is loaded onto the ship and the importer carries the cost from there until destination.[138] This reduces the competitiveness of South African wine. Another wine industry player terms it 'the shipping crisis', where online sales soared during the pandemic, and there was a big shortage of containers given historic lack of investments and because vessels were displaced disproportionately in the US west coast with long delays in offloading. Even prior to the pandemic, the global shipping industry has been dominated by very few players with significant market power. There have been cartel cases uncovered in the shipping industry[139]and competition enforcement appears to have not made a significant difference in the conduct of global players.

5.3.4. Poor port facilities in South Africa

Closely related to shipping challenges are the high levels of congestion and delays at South Africa's main ports owing to machinery breakdowns caused by ageing and worn-out infrastructure (Cramer and Chisoro-Dube, 2021). Cape Town harbour, in particular, is highly inefficient. Stack dates for containers are 7-10 days long instead of 3 days, and the port is closed for many days due to bad weather. This contributes to a lack of availability of containers for export shipments, especially in fruit season when fresh fruit gets priority.[140] There is a lack of alternatives for wine producers, with Saldanha Bay harbour still closed, and road freight to

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[134] Interviews with SAW5
[135] Interview with SAW5
[136]Interview with SAW72
[137] Interview with SAW6
[138] Interview with SAW5
[139] See for instance, https://www.competition.org.za/ccred-blog-competition-review/2015/11/22/shipping-cartel-fines-in-south-africa
[140] Interview with SAW6

Windhoek harbour being prohibitively expensive.[141] Given these challenges, shipping lines are avoiding the African route as it is more expensive than others. There are numerous infrastructural, operational and service challenges at the Cape Town harbour and fixing these is necessary for the growth of exports from South Africa.[142] The dire situation at the harbour was also raised by other interviewees.[143]

5.3.5. Impact of the Covid-19 pandemic and other global shocks

The past 10 years since the recession in 2008/9 has seen many challenges for the wine industry. Although the industry had two good years in 2018/19 which saw increases in grape prices, the onset of the Covid-19 pandemic wiped away many of these gains. The banning of alcohol sales by the South African government saw product stocks building up (although they have subsequently been drawn down) and input costs rising. As noted above, for instance, the banning of alcohol sales exacerbated the lead bottle producers to shut down their furnaces. Although bouncing back now, the restaurant business also took a knock during the pandemic. The potential for exports to the Chinese market declined given the extended extreme lockdown measures imposed by the Chinese government because of Covid-19.[144] The Russia / Ukraine war and the shortage of gas in Europe has also made investors nervous, affecting exports. These challenges are exacerbated by the increasing power supply shortages since the pandemic.

5.3.6. Limited access to finance

For an entrant or any business to be successful in the wine industry, it requires funding. Estimates are that it can take at least 10 years to be established in this industry.[145] SMEs struggle to get approval for funding when they submit applications to finacial institutions. To get around the challenges of access to finance, SMEs enter the wine industry largely through the virtual winery model as it does not require a lot of capital. However, even under this model, working capital still becomes an issue when they start scaling up. Working capital challenges are exacerbated by the long payment terms, especially in export markets (for example, the US takes 90 days to pay).[146] CCRED has undertaken several studies on the challenges of accessing developing finance, particularly for SMEs (see for instance, Robb, 2022; Bosiu, 2020; Goga, Bosiu and Bell, 2019; Bosiu, Nsomba and Vilakazi, 2019).

5.3.7. Cultural and 'acceptance' challenges

As highlighted, new black entrants are on the back foot in terms of entry into the wine industry. Without the rich history, culture, expertise, and networks handed down from generation to generation that white wine producers typically have, black brands have to build this up from a

[141] Interview with SAW6
[142] Interview with SAW22
[143] Interview with SAW31
[144] https://www.bizcommunity.com/Article/196/786/235172.html
[145] Interview with SAW81
[146] Interviews with SAW55, SAW68

zero base. This also impacts black entrepreneurs' confidence in aspects such as wine tasting. Majority of black people were not exposed to wine tasting and black consumers and emerging producers are not familiar with certain flavours such as black currant and raspberry when tasting wine, simply because they were not exposed to these flavours when growing up. It is therefore difficult for black producers and customers to resonate with wine brands.[147] Furthermore, wine and food pairing is typically based on western cuisine/food and not African cuisine/food.

On a broad industry level, there is a push back or non-acceptance of black named brands on the wine bottle especially black women-owned brands. According to interviewees, these trends are partly informed by patriarchy and racism.[148] As highlighted in the experiences of black entrants, they are often treated with skepticism throughout the value chain.[149] This has led to some black producers retaining or using white brands names because these tend to 'sell better' than black brand names in South Africa.[150] In addition, it is difficult for black producers to get consumers to relate to black winemakers' stories, including black African consumers as previously noted. Furthermore, the structure of the industry which continues to be male dominated with 80% of wine farms still owned by (white) men make it difficult for women to break into it the industry.[151] A related barrier to 'acceptance' in the industry is that a science background is favoured. Black entrants with other educational background are considered less knowledgeable in the industry and therefore not always taken seriously.[152]

6. Some conclusions and recommendations

We sought to assess how SMEs and women-owned businesses (particularly black-owned businesses) participated in the South African wine value chain to better understand the barriers to entry and growth that they face. Key objectives were to sensitize SMEs and women businesses on the nature of barriers they face, particularly strategic barriers, which are not immediately obvious; the recourse they may have to overcome these barriers, and to better understand successful and failed entry experiences. Through these insights, the study aims to inform and contribute to policy development and initiatives to improve SME and women-owned business participation in the wine industry. A value chain lens was used to understand linkages and dynamics between actors at different levels, and the role of market players, organisations, and the government in facilitating (or hindering) greater SME and women-owned business participation and upgrading. This was complemented using competition economics principles to understand the impact of market power and buyer power more deeply at certain levels of the value chain.

[147] Interview with SAW68
[148] Interviews with SAW55, SAW18
[149] SAWS3
[150] SAWS3
[151] SAW47
[152] SAW55

Important insights on how (mainly black-owned) SMEs and women-owned businesses entered and participated in the wine value chain were gained from the fieldwork conducted. Gender-specific aspects of entry and participation were more challenging to isolate, with most dynamics faced by women being applicable to SMEs generally, and with some dynamics being specific to race. Gender-specific issues were only raised anecdotally by certain interviewees (for instance, around patriarchy and the reluctance to accept women brands), and we have not been able to systematically assess these in this study based on the very limited insights given by interviewees on this. Even though majority of new black entrants in wine production have been women, the challenges which were raised by them were largely common for all black SMEs and also applicable to non-black SMEs. For the objectives of this project, the insights on SME entrants in general are therefore very important as they apply directly to new women businesses in the wine industry.

Virtual wineries have been used as a steppingstone for black-owned brands to enter the industry and show promise for future entrants. In contrast, the record of successful land-based entry has been weak, and presents a more challenging, protracted and expensive route for SMEs entry. Entrants through the virtual winery model have focused on a small range of niche, high quality wines and blends with unique stories. This model does not require the new entrant to purchase land to grow grapes, nor invest in cellars or wineries for wine production. This substantially reduces the capital outlay needed to enter the market, and the risks involved with entry. These players have formed important partnerships with established industry players with experience, networks, capabilities, and access to markets, providing a springboard into the market. There are still challenges with this model of entry from a value chain governance perspective, including a possible loss of control over the brands if the partnership terms and conditions are overly prescriptive, and a lack of a physical 'brand home' to promote the brand. Transformation bodies like SAWITU through The Wine Arc aim to provide a home for these brands, as well as facilitate greater exposure of these brands in local and international markets. But more resources are needed to substantially grow the number of black entrepreneurs, support their brand development, develop networks and facilitate their access to markets to meet transformation targets. Long-term strategies are required to provide an eco-system of support to new black entrants that encompass access to quality education and training in the wine industry (both technical and commercial), in addition to access to patient finance. These are certainly not new ideas in the South African policy discourse, but there is renewed momentum presently with the Agriculture and Agroprocessing Master Plan (AAMP) in its operationalisation phase (Phase II) in 2023 to push harder for the support of models of entry which show promise. The AAMP explicitly highlights the wine industry as one in which intervention is required for greater inclusion (AAMP, 2022). This study can support the proposed wine industry value chain round-table which seeks to '*monitor, evaluate and advocate for a sustainable, inclusive wine and beverage industry*' (AAMP 2022; 23). This roundtable will benefit from research on models with good prospects of success for black entrants, what types of partnerships work and how they can be better incentivised.

Clear opportunities exist to grow the share of black brands in the domestic market through procurement of house brands or private labels by leading supermarket chains. As the study showed, recent examples of large supermarket chains focusing their efforts on black wine brands point out how these lead firms who are gatekeepers to off-trade markets can effectively 'sponsor' black entrants in a substantial way. Again, this is timely, given that large retailers and agro-processors have explicitly committed in the AAMP to promote and support SME, mainly black, women and worker-owned enterprises in agroprocessing value chains. This is including through the enterprise or supplier development programmes (ESD), where stakeholders have in principle agreed to spend at least 3% of their net profit after tax (NPAT) on ESD programmes, over and above their current mandatory spend as part of B-BEEE requirements (AAMP 2022; 59). Consolidating evidence on what works and what does not work provides valuable inputs for the structure and design of future programmes as part of the AAMP. Supporting alternative routes to market such as independent wholesalers and retailers also provides more options for wine brands to get their products to consumers in the off-trade segment.

Competition law and policy has also evolved in South Africa over the past five years to tackle the widespread concerns of possible abuses of buyer power by large buyers in food value chains which can result in the squeezing of margins of SMEs. Amendments to the Competition Act in 2018 (effective 2020) prohibit the abuse of buyer power[153] and price discrimination by dominant firms against SME businesses in selected industries (of which agro-processing is one). These provisions aim to protect SMEs from a range of conduct by dominant buyers who extract rents from, and transfers risks to, them.[154] There are also nodes of high concentration in the wine value chain that our study has shown, for instance, in the supply of glass for bottles and at the distributor level. Concerns of high mark-ups were raised which limits the ability of new entrants to effectively compete. High mark-ups at restaurant level also harm emerging black brands. These are areas that the Competition Commission might consider investigating. SMEs in the wine industry have recourse through the Competition Act of 1998 (as amended), and an important part of the overall Fair4All project is creating awareness of such recourse available.[155]

While the conduct of large, lead buyers in South Africa can in principle be kept in check through national competition policy instruments, and the important role that they play in facilitating market access and sponsoring entry can be stimulated by interventions such as greater ESDs, we argue that similar commitments need to go beyond just the South African supermarkets/retailers. Many of the black-owned and women-owned wine brands have found more success in export markets than in local markets. Large retailers in export markets therefore impact them directly. We have argued on previous platforms that a 'Sustainability Compact' with large supermarket chains globally is needed, which includes commitments to not squeeze margins of suppliers, particularly from developing countries (das Nair and Shedi, 2022). The Sustainability Compact would include undertakings both on retailer behaviour towards suppliers as well as active investments in their supply chains to help suppliers in developing countries meet these standards. This would be done in collaboration with other stakeholders,

[153] The buyer power amendments in South Africa developed alongside, and complemented, an in-depth market inquiry into the grocery retail sector (The Grocery Retail Market Inquiry) which was initiated in 2015.
[154] https://www.compcom.co.za/wp-content/uploads/2020/05/Buyer-Power-Guidelines.pdf, accessed 23 March 2023
[155] In this regard, a short learning programme was conducted to build the capacity of SMEs on competition law and policy tools on 14 March 2023, drawing also from insights from this research.

such as development finance institutions, public and private skills and capacity building organisations and government.

There is potential to grow the domestic market through targeting the emerging young black middle class who are image conscious and are seeking top quality premium brands.[156] This can allow for new entrants to focus on top quality (and drive 'premiumization'), but marketing to this clientele is costly. Brand loyalty lies with well-established traditional brands, and there is a lack of trust for new black brands. Support with promotion campaigns locally and building a brand presence is therefore needed. This goes hand-in-hand with developing a physical brand home for black brands where tasting experiences can happen, with the visual appeal of vineyards. Wine tourism in the local market also presents a big opportunity for income and employment, especially for smaller wineries. Targeted efforts are required to grow wine tourism, with organisations like Wesgro playing a strong role.

Opportunities to grow export market sales for new entrants, black and women-owned brands require a concerted effort from both government and the private sector in terms of trade agreement negotiations and trade shows. This is recognised in the AAMP in promoting Brand SA in export destinations (AAMP 2022; 46) such as USA, China and the rest of Africa, especially on the back of the AfCFTA. The industry, through industry body Wines of South Africa (WOSA) promotes South African wine in key export markets, but this is not something the industry can do on its own. It requires support from the government to negotiate trade agreements on behalf of the industry on a country-to-country level and to create an enabling environment for South African exports, including through providing the necessary infrastructure for exports.

For new entrants to get exposure to these markets, they also need support to strongly market and promote their brands in these countries physically through trade shows and promotions. Joint initiatives such as the most recent black-owned South African wine brands participation in Vinexpo America are examples of the kind of support needed for brand exposure.[157] Such targeted campaigns supporting women and black SMEs in wine are needed to make the most of opportunities that arise from trade agreements with the US such as the African Growth and Opportunity Act (AGOA). Under AGOA, qualifying products which include wine, can be exported to the USA duty-free. AGOA has been renewed till 2025, but it is not clear if it will be extended further.

To penetrate other markets with potential, such as China, the South African government also needs to help in trying to lower or remove import duties for wine from South Africa through bilateral trade negotiations. Countries like Chile, Australia, New Zealand and Georgia can export wine to China 20% cheaper than South Africa can because they do not have duties.[158] The AAMP also recognizes the need to promote geographic indicators in this regard (AAMP 2022; 54).

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[156] E.g. growing demand for 'Nectar' wines.

[157] https://www.bizcommunity.com/Article/196/786/236499.html

[158] SAW31

The massive ports and shipping challenges South African exporters face however mean that the above efforts would be completely wasted if these problems are not fixed. Securing access to markets is only part of the challenge, physically getting product to export markets is the next. A critical theme in the AAMP is around increasing efficiency and handling capacity at South African harbours to grow exports (AAMP 2022; 39). The plans envisaged in the AAMP must be finalised and executed to alleviate the serious bottlenecks at the harbours. Concerns on shipping rates need to be investigated by competition authorities globally.

Innovation plays an important role in the industry, and South Africa has been in the forefront of innovation in environmental sustainability globally as we highlighted in this study. The eco-system of players which drive R&D and innovation (Winetech, Vinpro, University of Stellenbosch, ARC etc.) require continued support from local and national government. There are important pockets of innovation undertaken by private firms which are valuable for the industry, and on which greater research is needed. Innovation in more sustainable packaging, screw caps, bottling, pouches, PET bottles and cans are also important for emerging brands seeking to be more sustainable and to differentiate themselves.

Lastly, as highlighted, this report did not focus on farm worker or labour conditions on farms. This is nonetheless important, and the AAMP under Annexure B2: Human Capital Cluster Outcomes highlights the need to address matters of decent worker conditions, effective worker-ownership schemes, and skills development. While we provide some evidence on successes and failures of worker-ownership schemes and provide high level insights on challenges faced particularly by women on farms in this report, implementers of Phase II of the AAMP have to engage closely with the Women on Farms Project (WFP), The Pebbles Project, Oxfam South Africa, other CSOs, labour organisations in wine, WIETA and Fair Trade to inform future interventions.

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8. Appendix1: South African Black-Owned Wineries

1	Adama	22	J9 Wines	43	PaardenKloof
2	Amile Wines	23	Jan Harmsgat	44	Randela Wine
3	Anazi Wines	24	Kara Tara Wines	45	Ses'Fikile
4	Aslina	25	Khayelitsha's Finest Wines	46	Seven Sisters Vineyards
5	Bayede	26	Klein Goederust	47	Silk Bush
6	Birthmark of Africa	27	Koni Wines/Konempire	48	Siwela Wines
7	Blouvlei	28	Koopmanskloof	49	SJ Wines
8	Bonnievale Wines	29	Kumusha Wines	50	Small Scale Vineyards
9	Brothers in Vines	30	La Ric Mal	51	Solms-Delta
10	Brunia Wines	31	Land of Hope	52	Son of the Soil Wines
11	Botébo Wines	32	Lathithá Wines	53	Somerbosch Wines
12	Buya Wine	33	Lelie van Saron	54	Tembela Wines
13	Cape Dreams/Croft Sales	34	Libby's Pride	55	Tesselaarsdal Wines
14	Carmen Stevens Wines	35	LN Wines	56	Thembi & Co Wines
15	CJ Family Wines	36	Liz Ogumbo Wines	57	The Township Winery
16	Compagniesdrift	37	Magna Carta Wines	58	The Bridge of Hope Wines
17	De Ladegourdie Wines	38	Mama Afrika	59	Thokozani
18	Delisa Wines	39	Mayime Winery	60	Truevines Wines/Shumayela Holdings
19	Epicurean Wine	40	M'hudi Wines	61	Tumbaga Fine Wines
20	Fairvalley	41	Mosi Wine & Spirits	62	Women in Wine
21	House of Mandela	42	Nomoya Wines		

Source: https://www.vinography.com/2023/02/the-definitive-list-of-black-owned-wineries-around-the-globe